Supreme Court, U.S.
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No. _____

In The
Supreme Court of the United States

HOMAN MCFARLING,

Petitioner,

versus

MONSANTO COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. May a patent holder lawfully prohibit farmers from saving and replanting seed as a condition to the purchase of patented technology?

2. Does obtaining patents on products which are the subject of licensing agreements afford an absolute defense to any claim that the licensing agreements violate the Sherman Act?

LIST OF PARTIES

The following is a list of all parties to the proceedings in the Court below, as required by Rule 24.1(b) and Rule 29.1 of the Rules of the Supreme Court of the United States.

1. Homan McFarling, Petitioner;
2. Jim Waide, Counsel for Petitioner;
3. Monsanto Company, Respondent;
4. Joe Orlet, Esq., Counsel for Respondent; and
5. Seth Waxman, Esq., Counsel for Respondent.

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OPINIONS BELOW

The opinion of the United States Court of Appeals for Federal Circuit upholding summary judgment in favor of the Respondent Monsanto Company (hereinafter "Monsanto") is reported at 363 F.3d 1336 (Fed. Cir. 2004). It is attached as App. 1-31. The bench opinion of the United States District Court for the Eastern District of Missouri granting summary judgment in favor of Respondent Monsanto is unreported and is attached as App. 35-49.

JURISDICTION

This Court has jurisdiction to review the decision of the United States Court of Appeals for the Federal Circuit decided on April 9, 2004 by writ of certiorari under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The Sherman Act, 15 U.S.C. § 1:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $100,000,000 if a corporation, or, if any other person, $1,000,000, or by imprisonment not exceeding 10 years, or by both said punishments, in the discretion of the court.

The Utility Patent Act, 35 U.S.C. § 101: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

STATEMENT OF THE CASE

The Court of Appeals for the Federal Circuit has allowed Respondent Monsanto, through licensing agreements with all American soybean seed companies, to prohibit farmers' saving seed for replanting. Farmers saving seed for replanting instead of buying expensive new seed every year can be traced to the time when "agriculture began over 10,000 years ago." Ewens, *Seed Wars: Biotechnology, Intellectual Property and the Quest for High Yield Seeds*, 23 B.C. Int'l & Comp. L.Rev. 285, 286 (2000). "Ever since humans began the transition from nomadic herders to farmers, saving seed for planting the following year's crop has been a basic tenet in the practice of agriculture." Oczek, *In The Aftermath Of the "Terminator" Technology Controversy: Intellectual Property Protections For Genetically Engineered Seeds And The Right To Save And Replant Seed*, 41 F.C. L.Rev. 627, 647 (2000).

This case began when Respondent filed suit in the United States District Court for the Eastern District of Missouri against Petitioner Homan McFarling, a Pontotoc, Mississippi soybean farmer. Joint Appendix (hereinafter "JA"), pp. 533-43.[1] The complaint alleges that McFarling

[1] The term "JA" refers to the Joint Appendix filed in the United States Court of Appeals for the Federal Circuit.

infringed Monsanto's patents and breached a contract by saving and replanting patented Roundup Ready® soybeans, which he had purchased from a Monsanto licensee. JA534-38. McFarling answered, denying liability, and claiming Monsanto's claims were "inconsistent with the Sherman Antitrust Act." JA546. The district court denied McFarling's motion to dismiss for lack of personal jurisdiction and granted Monsanto's motion for preliminary injunction.. These rulings were upheld on appeal to the United States Court of Appeals for the Federal Circuit. *Monsanto Co. v. McFarling*, 302 F.3d 1291 (Fed. Cir. 2002), cert. denied, 537 U.S. 1232 (2003).

Upon remand, the district court, in a bench ruling, granted Monsanto's motion for summary judgment on the contract issues and on Monsanto's claim for infringement of one of its patents. The district court also granted Monsanto's motion for summary judgment on Petitioner's Sherman antitrust counterclaims. The district court entered a final judgment based on the contract's liquidated damages provision of $780,000.00 and certified this judgment as final pursuant to Fed. R. Civ. P. 54. JA1-3. McFarling appealed to the United States Court of Appeals for the Federal Circuit.

On appeal, the Federal Circuit rejected McFarling's antitrust counterclaims, holding that the practices complained of related to matters within the terms of Monsanto's patents and could, therefore, not violate the antitrust laws. App. 31.[2] In granting summary judgment against

[2] However, the Federal Circuit nullified the contract providing for 120 times the technology fee as liquidated damages as an unlawful penalty. App. 30.

McFarling, the Court of Appeals did not consider the economic effect of the licensing agreements, which is to require farmers to subsidize Monsanto-licensed seed companies which had nothing to do with inventing the patented technology.

FACTS

Monsanto Company patents technology which causes soybean seed to resist Roundup® herbicide or any other glysophate. This patented technology allows farmers to spray Roundup® herbicide (or any other glysophate) over Roundup Ready® soybeans, killing the weeds but not the soybeans. JA600. Roundup Ready® technology eliminates the need for cultivating soybeans. JA600.

Roundup Ready® soybean seed were first marketed in 1996. It is a huge success. By the year 2000, Roundup Ready® seed comprised over two-thirds of the United States market in soybeans. JA614.

Monsanto distributes its Roundup Ready® seed through licensing agreements with all 200 American seed companies. Monsanto refers to these 200 licensee soybean seed companies which sell Roundup Ready® seed as its "seed partners."[3] JA788, 881. The agreements which Monsanto has with its 200 "seed partners" assure that farmers who buy Roundup Ready® seed will return each year for new soybeans, rather than replant saved seed.

[3] Its "seed partners" are also Monsanto's competitors since Monsanto owns three seed companies which sell twenty percent of the American market in soybeans. JA340-44, 354-55.

The agreements require the "seed partners" to obtain farmers' signatures on "technology agreements" forbidding the saving and replanting of the Roundup Ready® seed as a condition to purchasing the genetically-altered seed. JA76, 587-88, 621, 698-99.

The licensing agreements jointly benefit Monsanto and the soybean seed companies. The agreements require the seed companies to collect a $6.50 per bag technology fee from the farmer to be paid to Monsanto. The soybean seed companies then charge a separate price for the new seed, which is much more than the farmers would have invested in saved seed. Thus, for every fifty-pound bag of new seed sold, the soybean seed companies make the profit from the sale of the new seed each year, and Monsanto reaps a $6.50 per bag technology fee for use of the patented technology. JA76, 887-89. Since the farmers who wish to plant Roundup Ready® seed must return each year for a new supply, the agreements give the seed companies an incentive to sell Roundup Ready® seed instead of competitor conventional seed. JA809-10.

The farmer, when purchasing a fifty-pound bag of seed, pays the $6.50 technology fee to Monsanto and also pays $18.00 for the fifty-pound bag of seed to a seed company. JA272, 635.

On the other hand, a farmer who saves his seed would have only invested about $7.00 per bag in seed. JA618. Thus, the net effect of the licensing agreements is that a farmer who plants Roundup Ready® seed must subsidize seed companies by paying them far more for new seed than he would have invested if they were allowed to save and replant their own seed. JA807.

Economic Testimony

According to Mississippi State Agricultural Economist Dr. David Parvin, Monsanto's agreements with its licensees, prohibiting farmers from saving and replanting their own seed, is a destruction of a "secondary market" which causes the price of Roundup Ready® seed to be artificially high. JA670-71. If farmers could save and replant their own seed, the seed companies would have to lower the prices in order to make sales of new seed. JA272-73. According to Dr. Parvin, the fact that disallowing the saving and replanting of seed will cause higher prices is "sophomore economics." JA670. Prohibiting a farmer from saving and replanting his own seed causes the market to be inefficient and results in higher prices for new seed. JA675.

To demonstrate that prices would be lower if seed-saving were allowed, Dr. Parvin relied on a Government Accounting Office Biotechnology study of the differing prices for Roundup Ready® soybeans in Argentina as compared with those in the United States. JA729-41. In Argentina, where there is no prohibition against saving and replanting Roundup Ready® seed, new Roundup Ready® seed sells for approximately $12.00 to $15.00 per bag, as opposed to $20.00 to $23.00 per bag in the United States. JA676. Of course, the fact that foreign farmers are allowed to save and replant Roundup Ready® seed puts them at a competitive advantage over American farmers.

Dr. Robert D. Tollison, a University of Mississippi economist, swore that requiring the farmers to purchase new seed as a condition to obtaining the patented technology is an anticompetitive "tying" agreement. Dr. Tollison's expert opinion states:

> Second, there is the broader linkage which the saved seeds program facilitates involving the requirement that farmers buy new seeds every year. The less restrictive alternative in this case is clearly to allow Monsanto to collect a technology fee, while not requiring that farmers buy new seeds each year. The purchase of new seeds is "bundled" with the technology as a way to extract monopoly profits from farmers, who would otherwise simply pay the technology fee to Monsanto and use saved seeds. These tying arrangements appear to be part and parcel of Monsanto's efforts to extract monopoly profits in this case. The effect of the Monsanto prohibition of seed-saving is that farmers pay a much higher price than they would otherwise have invested in seed. According to the information I have received, farmers consider saved seed to be superior in quality, and they have much less investment in saved seed than they have in purchasing new seed. Accordingly, in a competitive market, the farmers would save their own seed, rather than buying new seed each year.

JA819-20.

Petitioner's Execution of the Technology Agreement Prohibiting Saving and Replanting Seed

Petitioner Homan McFarling is a Pontotoc County, Mississippi farmer who farms approximately 5,000 acres of soybeans in northeast Mississippi.

A seed store clerk told McFarling that he would have to sign a technology agreement in order to be allowed to purchase Roundup Ready® seed. This agreement forbids

seed-saving and provides that Monsanto be paid 120 times the technology fee if seed is saved. JA76.

McFarling saved seed from his 1998 crop and re-planted about 1,500 acres in 1999 with saved seed. JA587-634. He did so because saved seed is "much cheaper." JA618, 1447-48. He defended Monsanto's suit on the grounds that Monsanto's agreement with its 200 seed partners in prohibiting seed-saving violates the Sherman Act.

Monsanto's Patents

First, Monsanto owns United States Patent Number 5,352,605 (the "605" patent) which claims a "chimeric gene" and a " promoter." JA251.

Second, Monsanto owns United States Patent Number 5,603,435 (the "435" patent), which claims "seed of a glysophate tolerate plant." JA231.

Opinion of the United States Court of Appeals for the Federal Circuit

The United States Court of Appeals for the Federal Circuit held that since Monsanto has a patent both on the patented technology and on the seed, Monsanto's prohibiting seed-saving cannot constitute either patent abuse or an antitrust violation. App. 27.

The Court of Appeals refused to scrutinize the licensing agreements for an antitrust violation because "the anticompetitive effect of which McFarling complains is part and parcel of the patent system's role in creating incentives for potential inventors." App. 13. The opinion

never mentions the crucial fact that the "incentive," i.e., the profit from the sale of new seed, goes not to the inventor (Monsanto) but to the seed company licensees who did not invent the patented technology.

REASONS FOR GRANTING WRIT

I. The Writ should be granted because the United States Court of Appeals for the Federal Circuit, by declining to consider the anticompetitive effect of the licensing agreements, acted inconsistently with other circuits, and frustrated the national policy of encouraging competition.

The Sherman Act, 15 U.S.C. § 1, outlaws "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, . . . " The Sherman Act prohibits all unreasonable restraints of trade. *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984); *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969).

The heart of McFarling's argument is that agreements to prohibit seed-saving are an unreasonable restraint of trade, since the farmer is not allowed to purchase the Monsanto technology without also agreeing to buy overpriced new seed. Monsanto ties unwanted new seed to the right to purchase the patented technology. This tying is not for the benefit only of Monsanto. Instead, its seed company licensees derive a financial windfall since farmers have to buy overpriced new seed from the seed companies each year. A farmer cannot purchase the technology unless he also agrees to purchase new seed each year.

Requiring farmers to purchase a tied product (new soybeans) as a condition to purchasing a desired product (the patented technology) is a classical example of what a jury may find to be an unreasonable restraint of trade. As explained in *Jefferson Parish Hospital Dist. No. 2, supra*, at 12:

> Our cases have concluded that the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. When such "forcing" is present, competition on the merits in the market for the tied item is restrained and the Sherman Act is violated.

This Court explained that "tying" involves the "supplier's ability to induce his customer for one product to buy a second product from him that would not otherwise be purchased solely on the merit of that second product." *Id.* at 14, n. 20. This "tying" occurs here since a farmer does not purchase new seed because of the "merit" of the new seed but only because he wants the patented technology.

McFarling's expert, Dr. Robert Tollison, swore:

> The less restrictive alternative in this case is clearly to allow Monsanto to collect a technology fee, while not requiring that farmers buy new seeds each year. The purchase of new seeds is "bundled" with the technology as a way to extract monopoly profits from farmers, who would otherwise simply pay the technology fee to Monsanto and use saved seeds . . . The effect of the Monsanto prohibition of seed-saving is that

> farmers pay a much higher price than they would otherwise have invested in seed . . .

JA819.

Monsanto even admitted that its genetically-altered technology (the patented "trait") and the new seed constitute two separate markets. In attempting to justify to the Antitrust Division of the Justice Department its purchase of a cottonseed company (Delta and Pine Land Company), Monsanto had earlier written:

> Although Monsanto supplies traits [the patented technology] to DPL [Delta and Pine Land] and to other cottonseed companies, *the trait market is not a part of the seed market.* Rather, the trait market involves discreet and separable intellectual property that responds to different pricing factors than do seeds. Indeed, some traits in some crops are worth far more than the seed itself, while other traits are worth far less than the seed.

JA862 (emphasis added).

By ignoring the fact that Monsanto admits the "trait" and the seed are two separate markets and bound only on the fact that Monsanto has patents on both, the Court of Appeals ignores the principles that "[t]he legality of petitioners' conduct depends on its competitive consequences, . . . " *Jefferson Parrish Hospital Dist., No. 2, supra*, at 22, n. 34.[4]

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[4] Daniel Charles has noted that Monsanto's establishing a subsidy system for the seed companies has created a prosperous seed industry at the expense of farmers. He writes: "Seed companies never had earned substantial profits. But it suddenly became clear to many in the

(Continued on following page)

Additionally, the opinion conflicts with the D.C. Circuit, which holds that owning patents on all products covered by a licensing agreement does not immunize the agreements from antitrust scrutiny. In *U.S. v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001), plaintiff charged that Microsoft was illegally attempting to restrain trade by requiring consumers to purchase the Microsoft browser as a condition of the purchase of a Microsoft operating system. Microsoft defended, in part, on the grounds that both products were within the terms of its patent. The Court of Appeals for the D.C. Circuit rejected this position, stating:

> Microsoft's primary copyright argument borders upon the frivolous. The company claims an absolute and unfettered right to use its intellectual property as it wishes: "[I]f intellectual property rights have been lawfully acquired," it says, then, "their subsequent exercise cannot give rise to antitrust liability."
>
> . . .
>
> That is no more correct than the proposition that use of one's personal property, such as a baseball bat, cannot give rise to tort liability.

253 F.3d at 63.

U.S. v. Microsoft Corp, supra, is correct. By Monsanto's receiving the "technology fee," it has been rewarded for its invention. No purpose of the patent laws is served by allowing Monsanto to enter an agreement with its licensees, whereby the licensees charge inflated,

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industry that they had become very valuable indeed." Daniel Charles, *Lords of the Harvest: Biotech, Big Money, and the Future of Food*, p. 197 (2001).

artificial prices for the seed which farmers are required to buy in order to purchase the patented Monsanto technology.

Monsanto receiving payment for its patented technology is all the reward due for its invention. Monsanto forcing farmers to subsidize seed companies is not carrying out any patent law policy and is frustrating the antitrust policy of promoting competition.

The Federal Circuit differs with the Fifth Circuit and the Third Circuit. *Mannington Mills, Inc. v. Congoleum Industries, Inc.*, 610 F.2d 1059, 1071 (3rd Cir. 1979) held:

> Where the license restriction results primarily in benefits for the licensees rather than the patentee, the anticompetitive restriction cannot be justified as a subsidy for the patentee's inventive activity. See Baxter,[5] Supra, 76 Yale L.J. at 313-14. In such cases, there is no sound reason to immunize the patentee's conduct from antitrust scrutiny.

Accord, *In re Yarn Processing Patent Validity Litigation*, 541 F.2d 1127, 1136 (5th Cir. 1976) (allocating royalty benefits to a licensee, which did not hold a patent, is not protected by patent policy).

Besides conflicting with other circuits, the Federal Circuit has radically extended the previous reach of the patent laws as this Court has defined them. Monsanto's "435" patent purports to patent the "genetically-altered seed" and its progeny. The seed contains not only a genetically-altered gene, but also contains thousands of other

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[5] Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 Yale L.J. 267, 313 (1966).

genes which are not made by Monsanto but by God.[6] This Court has repeatedly emphasized that the reach of the patent laws cannot be extended to include products of nature. *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Intern., Inc.* 534 U.S. 124, 134 (1996):

> As this Court held in *Chakrabarty*, "the relevant distinction" for purposes of § 101 is not "between living and inanimate things, but between products of nature, whether living or not, and human-made inventions." [*Diamond v. Chakrabarty*, 447 U.S. [303], at 313 [1980].

The unpatented germ plasm and second generation of genetically-altered soybeans is not a "human-made" invention. It was created by God. It is, therefore, not subject to Monsanto's patents, according to the Federal Circuit's interpretation of the reason of the patent laws.

The judgment in this case, therefore, not only conflicts with that of other circuits, but also offends this Court's precedent establishing a distinction between "products of nature" and human-made inventions.

CONCLUSION

By approving a scheme whereby seed companies, which had nothing to do with inventing patented technology, extract huge subsidies from farmers, the United States Court of Appeals for the Federal Circuit has offended the antitrust

[6] The Bible, Genesis, 1:11: "And God said, Let the earth bring forth grass, the herb yielding seed, *and* the fruit tree yielding fruit after his kind, whose seed is in itself, upon the earth: and it was so." (Emphasis in original).

policy of the United States while doing nothing to advance tne patent policy of rewarding investors.

The Writ should be granted.

Respectfully submitted,

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United States Court of Appeals
for the Federal Circuit

03-1177, -1228

MONSANTO COMPANY,

Plaintiff-Appellee,

v.

HOMAN MCFARLING,

Defendant-Appellant.

DECIDED: April 9, 2004

Before LOURIE, *Circuit Judge*, PLAGER, *Senior Circuit Judge*, and CLEVENGER, *Circuit Judge*.

CLEVENGER, *Circuit Judge*.

The United States District Court for the Eastern District of Missouri entered summary judgment against defendant Homan McFarling and in favor of the Monsanto Company ("Monsanto") under Federal Rule of Civil Procedure 54(b) on some, but not all, of the claims being litigated. *See Monsanto Co. v. McFarling*, No. 4:00CV84 CDP (E.D. Mo. Nov. 15, 2002) (granting final judgment under Rule 54(b)); (E.D. Mo. Nov. 15, 2002) (granting Monsanto's motions for summary judgment). The district court held that, when McFarling replanted some of Monsanto's patented ROUNDUP READY® soybeans that he had saved from his prior year's crop, McFarling breached the Technology Agreement that he had signed as a condition of his purchase of the patented seeds. The district court also held that McFarling had failed to demonstrate a genuine

issue of material fact that prevented entry of summary judgment on any of his counterclaims or his defenses to Monsanto's breach-of-contract claim. Finally, the district court held that a liquidated damages provision in the Technology Agreement was valid and enforceable under Missouri law and entered a judgment in the amount of $780,000.00. McFarling appeals the district court's rulings on several of his counterclaims and defenses, as well as its ruling on the contractual damages provision. We affirm the district court on the counterclaims and defenses, but we vacate the district court's judgment as it relates to the damages provision and remand for a determination of Monsanto's actual damages.

I

Monsanto manufactures ROUNDUP® herbicide. ROUNDUP® contains glyphosate, a chemical that indiscriminately kills vegetation by inhibiting the metabolic activity of a particular enzyme, 5-enolpyruvyl-shikimate-3 phosphate synthase ("EPSPS"). EPSPS is necessary for the conversion of sugars into amino acids – and thus for growth – in many plants and weeds.

Monsanto also markets ROUNDUP READY® genetic-modification technology. In soybean seeds, the ROUNDUP READY® technology operates by inserting the gene sequence for a variant of EPSPS that is not affected by the presence of glyphosate but that still performs the sugar-conversion function required for cell growth. Thus, ROUNDUP READY® soybean seeds produce both a "natural" version of EPSPS that is rendered ineffective in the presence of the glyphosate in ROUNDUP® herbicide, and a genetically modified version of EPSPS that permits

the soybean seeds to grow nonetheless. ROUNDUP®, or other glyphosate-based herbicides, can thus be sprayed over the top of an entire field, killing the weeds without harming the ROUNDUP READY® soybeans.

The Monsanto Technology Agreement in dispute in this case lists six patents related to the various seeds that are licensed by the agreement, but Monsanto has asserted infringement in this case only under two patents that read on aspects of the use of the ROUNDUP READY® technology in soybeans. United States Patent No. 5,633,435 ("the '435 patent") relates to the gene encoding the modified EPSPS enzyme, and sweepingly claims, *inter alia,* the "isolated DNA molecule" encoding it, '435 patent, claim 1; "[a] glyphosate-tolerant plant cell comprising" that DNA molecule, *id.,* claim 24; "[a] glyphosate-tolerane [sic] plant comprising" that plant cell, *id.,* claim 28; "[a] seed of a glyphosate-tolerant plant," *id.,* claim 79; a particular "transgenic soybean plant," *id.,* claim 86; and "[a] method of producing genetically transformed plants which are tolerant toward glyphosate herbicide," *id.,* claim 15. United States Patent No. 5,352,605 ("the '605 patent") relates to the use of a particular promoter in genetically modified plant cells. The '605 patent claims, *inter alia,* DNA sequences and plant cells containing the promoter. A promoter sequence is a DNA sequence located in proximity to the DNA sequence that encodes a protein and that, in part, tells the cellular machinery how much of the protein to make.

Monsanto licenses its proprietary ROUNDUP READY® technology through two interrelated licensing schemes. First, it licenses the patented gene to seed companies that manufacture the glyphosate-tolerant seeds that are sold to farmers. Under this license, seed companies gain

the right to insert the genetic trait into the germplasm of their own seeds (which can differ from seed company to seed company), and Monsanto receives the right to a royalty or "technology fee" of $6.50 for every 50-pound bag of seed containing the ROUNDUP READY® technology sold by the seed company. Monsanto also owns several subsidiary seed companies that comprise approximately 20 percent of the market for ROUNDUP READY® soybeans.

Second, Monsanto requires that seed companies execute licenses, rather than conduct unconditional sales, with their farmer customers. The 1998 version of this "Monsanto Technology Agreement" (the "Technology Agreement") between Monsanto and the soybean farmers using ROUNDUP READY® soybeans places several conditions on the soybean farmers' use of the licensed soybeans. In exchange for the "[o]pportunity to purchase and plant seed containing" the ROUNDUP READY® technology, soybean farmers agree, *inter alia:*

> To use the seed containing Monsanto gene technologies for planting a commercial crop only in a single season.
>
> To not supply any of this seed to any other person or entity for planting, and to not save any crop produced from this seed for replanting, or supply saved seed to anyone for replanting.
>
> To not use this seed or provide it to anyone for crop breeding, research, generation of herbicide registration data or seed production.

The Technology Agreement also contains a clause specifying damages in the event of breach by the farmer:

> In the event that the Grower saves, supplies, sells or acquires seed for replant in violation of

this Agreement and license restriction, in addition to other remedies available to the technology provider(s), the Grower agrees that damages will include a claim for liquidated damages, which will be based on 120 times the applicable Technology Fee.

II

Homan McFarling operates a 5000-acre farm in Pontotoc County, Mississippi. In 1998, McFarling executed the Technology Agreement in connection with the license of 1000 bags of ROUNDUP READY® soybean seed. McFarling concedes that he saved 1500 bushels of seed from his 1998 crop, enough to plant approximately 1500 acres, and that he replanted them in 1999. He subsequently saved 3075 bags of soybeans from his 1999 crop, replanting them in 2000.

Soybeans destined for replanting are apparently cleaned after harvest. When McFarling sent his seeds saved from the 1998 season to a third party for cleaning, Monsanto had some samples taken, had the genetic makeup of the seeds tested at Mississippi State University, and thus learned that McFarling was saving ROUNDUP READY® seeds.

III

In January 2000, Monsanto filed suit against McFarling, alleging, *inter alia*, infringement of the '435 and '605 patents and breach of the Technology Agreement, and seeking a preliminary injunction prohibiting McFarling from "planting, transferring or selling the infringing articles to a third party." In his answer, McFarling raised

affirmative defenses (styled alternatively as counterclaims when possible) both to liability – including, *inter alia*, violations of the Plant Variety Protection Act ("PVPA"), 84 Stat. 1542, as amended, 7 U.S.C. § 2321 *et seq.*, the federal antitrust laws, the patent misuse doctrine, and the patent exhaustion and first sale doctrines – and to damages as calculated under the 120 multiplier in the Technology Agreement. He did not, however, challenge the validity of Monsanto's patents. Because McFarling's only connection with Missouri was a forum selection clause in the Technology Agreement, McFarling also brought a motion to dismiss based on a lack of personal jurisdiction.

The district court held that the forum selection clause was valid and entered a preliminary injunction against McFarling. On appeal, we affirmed the district court on both issues. *See Monsanto Co. v. McFarling,* 302 F.3d 1291, 1296, 1299-300 (Fed. Cir. 2002) ("*McFarling I*"). Addressing Monsanto's likelihood of success on the merits, we held that the district court did not err in finding that McFarling had not demonstrated a reasonable likelihood of success on his affirmative defenses. *Id.* at 1297-99.

Back in the district court, Monsanto moved for summary judgment on the infringement claim under the '605 patent, the breach of the Technology Agreement claim, and all of McFarling's affirmative defenses. The district court granted summary judgment in favor of Monsanto on all of McFarling's defenses as well as on liability with respect to Monsanto's '605 patent infringement claim and the Technology Agreement claim. On damages, however, the district court denied Monsanto's summary judgment motion. It left the damages issue regarding infringement of the '605 patent for trial. Additionally, although it held the liquidated damages clause in the Technology Agreement to be valid

and enforceable (provided the 120 multiplier was applied to the number of bags of seed purchased rather than the number replanted), it concluded that there was insufficient evidence of the number of bags purchased by McFarling in 1998 to enter judgment on damages on the breach-of-contract claim. After McFarling stipulated that he purchased 1000 bags of ROUNDUP READY® soybean seed in 1998, the district court entered final judgment pursuant to Federal Rule of Civil Procedure 54(b) on Monsanto's breach-of-contract claim only in the amount of $780,000.00 (120 x $6.50 x 1000), and against McFarling on his counterclaims.

In the district court, Monsanto had argued that the 120 multiplier in the liquidated damages clause should be interpreted to produce damages of 120 times the technology fee times the number of bags of seed replanted by McFarling. The district court rejected that formula, reasoning that it would constitute an unlawful penalty because it simply imposes a multiple of 120 times Monsanto's actual damages. To avoid that result and sustain the lawfulness of the liquidated damages clause, the district court fashioned a formula that multiplies 120 times the licensing fee times the number of bags of seed purchased.

IV

McFarling appealed the district court's final judgment to us, and we have jurisdiction to hear his appeal pursuant to 28 U.S.C. § 1295(a)(1). McFarling argues that the district court's grant of summary judgment on the breach-of-contract claim was erroneous on the following issues: (1) his patent-misuse defense, (2) his antitrust counterclaim,

(3) his defense under the PVPA, and (4) his defense that the 120 multiplier in the liquidated damages provision of the Technology Agreement is a penalty clause that is unenforceable under Missouri law. We address each in turn below.

We review a grant of summary judgment by the district court without deference. *Combined Sys., Inc. v. Def. Tech. Corp. of Am.*, 350 F.3d 1207, 1209 (Fed. Cir. 2003). "Summary judgment is appropriate if, drawing all factual inferences in favor of the non-movant, there is no genuine issue of material fact and the movant is entitled to judgment as a matter of law." *Id.*

V

McFarling argues that Monsanto has committed patent misuse because Monsanto has impermissibly tied an unpatented product to a patented product. In McFarling's words, "[b]y prohibiting seed-saving, Monsanto has extended its patent on the gene technology to include an unpatented product – the germplasm – or God-made soybean seed which is not within the terms of the patent."

The policy of the patent misuse doctrine is "to prevent a patentee from using the patent to obtain market benefit beyond that which inures in the statutory patent right." *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992). Therefore, in evaluating a patent-misuse defense, "[t]he key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect." *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998); *see also Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (Fed. Cir.

1997); *Mallinckrodt,* 976 F.2d at 708; *Windsurfing Int'l, Inc. v. AMF, Inc.,* 782 F.2d 995, 1001 (Fed. Cir. 1986). In the cases in which the restriction is reasonably within the patent grant, the patent misuse defense can never succeed. *See Gen. Talking Pictures Corp. v. W. Elec. Co.,* 305 U.S. 124, 127 (1938); *B. Braun Med., Inc. v. Abbott Labs.,* 124 F.3d 1419, 1426-27 (Fed. Cir. 1997); *Mallinckrodt,* 976 F.2d at 708. In cases in which a condition controlling the use of a patented invention extends beyond the patentee's statutory right to exclude, however, either a per se rule of patent misuse, *see Va. Panel,* 133 F.3d at 869 (discussing specific practices constituting per se misuse), or a rule of reason analysis, *see Mallinckrodt,* 976 F.2d at 708-09; *Windsurfing Int'l,* 782 F.2d at 1001-02 ("To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market."), must be applied.

Tying can constitute patent misuse: A patent licensor who conditions the license on a patent licensee's purchase of an unpatented material for use in the invention may, under certain conditions, be impermissibly extending the scope of the subject matter encompassed by the patent grant. *See Carbice Corp. of Am. v. Am. Patents Dev. Corp.,* 283 U.S. 27, 30-31 (1931); *Senza-Gel Corp. v. Seiffhart,* 803 F.2d 661, 665 (Fed. Cir. 1986).

We need not plumb the complexities of tying as misuse of a patent, however, to determine that the district court correctly granted summary judgment for Monsanto. McFarling does not raise a typical tying allegation, and the mere recitation of the word "tying" is not sufficient to

state a patent misuse defense. McFarling does not argue that he cannot purchase soybean germplasm without the genetic trait that brings the soybean within the ambit of Monsanto's patent. In fact, a market for such unmodified soybeans exists. *See McFarling I,* 302 F.3d at 1298. Neither does McFarling argue that he sought (or is capable of performing under) the type of license granted to the seed companies to purchase, make or use the patented gene sequence prior to its insertion into the seed.

McFarling's "tying" argument instead centers on his desire to replant the entire seed, including the genetic modifications, and on Monsanto's refusal to grant him permission to do so. McFarling proposes that Monsanto could "untie" the seed and the trait by permitting the farmer to save and replant ROUNDUP READY® seed each year, provided the farmer still pays directly to Monsanto the required technology fee, rather than requiring a farmer to purchase both the seed and the genetic technology together at the beginning of each growing season. By suggesting that he should be allowed to pay the technology fee in conjunction with replanting of the second-generation soybeans, the closest McFarling comes to alleging a tying argument is a suggestion that Monsanto has tied together the legal right to exclude granted by a patent and the entire, physical patented product (or combination of germplasm and trait). At its simplest, McFarling effectively argues in different words that he should be granted a compulsory license to use the patent rights in conjunction with the second-generation ROUNDUP READY® soybeans in his possession after harvest. We decline to hold that Monsanto's raw exercise of its right to exclude from the patented invention by itself is a "tying" arrangement that exceeds the scope of the patent grant.

What perhaps truly irks McFarling is that the license controls what McFarling can do with second-generation seeds – the seeds that McFarling "made" using the seeds that he acquired under a strict license. McFarling argues that the prohibition in the Technology Agreement on "sav[ing] any crop produced from this seed for replanting" constitutes patent misuse; he does not suggest that the prohibitions on "supply[ing] any of this seed to any other person or entity for planting" and on "supply[ing] saved seed to anyone for replanting" should render the patent unenforceable. Nonetheless, Monsanto tries rather unconvincingly to paint its restrictions in the Technology Agreement as permissible field-of-use restrictions on the first-generation seeds. *Cf. B. Braun,* 124 F.3d at 1426 ("[F]ield of use restrictions . . . are generally upheld."). Monsanto argues that it "may license a grower to 'use' its patented ROUNDUP READY® biotechnology to grow a commercial crop, but decline to license a grower to 'make' patented seed for use or sale as a crop seed." Based on the record before us, McFarling plants and grows the first-generation seed in an identical fashion whether he intends to sell the second-generation seed as a commercial crop for consumption or whether he intends to replant it. Thus, the Technology Agreement does not impose a restriction on the use of the product purchased under license but rather imposes a restriction on the use of the goods made by the licensed product.

Our case law has not addressed in general terms the status of such restrictions placed on goods made by, yet not incorporating, the licensed good under the patent misuse doctrine. However, the Technology Agreement presents a unique set of facts in which licensing restrictions on the use of goods produced by the licensed product are not

beyond the scope of the patent grant at issue: The licensed and patented product (the first-generation seeds) and the good made by the licensed product (the second-generation seeds) are nearly identical copies. Thus, given that we must presume that Monsanto's '435 patent reads on the first-generation seeds,[1] it also reads on the second-generation seeds. *See* '435 patent, col. 165, l. 12 (claiming "[a] seed of a glyphosate-tolerant plant"). Because the '435 patent would read on all generations of soybeans produced, we hold that the restrictions in the Technology Agreement prohibiting the replanting of the second generation of ROUNDUP READY® soybeans do not extend Monsanto's rights under the patent statute.

VI

McFarling next repackages his tying patent-misuse defense as a tying antitrust counterclaim. However, because we have found McFarling's allegations insufficient to present a genuine issue of material fact concerning whether Monsanto's licensing restrictions went beyond the boundaries of its patent grant, McFarling's antitrust

[1] In a post-argument letter, McFarling notes that Monsanto included a count of infringement under the '435 patent in its complaint but that it did not move for summary judgment on this count. McFarling argues that because the validity of the '435 patent will be subject to attack if and when the claim of infringement under the '435 patent is addressed in the district court, it is improper for this court to presume the patent's validity at this juncture. We disagree. We can review only the claims considered final by the district court under Federal Rule of Civil Procedure 54(b). McFarling failed to raise or argue the alleged invalidity of the '435 patent as a defense to the breach of the Technology Agreement claim or as an element of its patent misuse defense, and at this stage of the proceedings we deem the argument to have been waived for purposes of deciding this appeal.

counterclaim also fails. *Cf. In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1327-28 (Fed. Cir. 1999) (concluding that an antitrust claim "does nothing to limit the right of the patentee to refuse to sell or license in markets within the scope of the statutory patent grant"); *Va. Panel*, 133 F.3d at 873 ("[B]ecause we determine that the conduct underlying the allegations of misuse does not amount to patent misuse, the same conduct cannot support a judgment that [the patentee's/licensor's] conduct violated the Sherman Act."). In this instance, the anticompetitive effect of which McFarling complains is part and parcel of the patent system's role in creating incentives for potential inventors.

McFarling also argues that "the district court improperly assumed the role of the fact finder and decided that the patented technology (the patented 'trait') and the seed are not two separate markets" without examining consumer demand for either. We agree with McFarling that, for antitrust purposes, whether there are two distinct products for tying purposes is a question of fact usually determined by examining consumer demand. *See Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 19 (1984) (analyzing the existence of separate markets based "on the character of the demand for the two items"). Furthermore, we agree that the district court failed to consider consumer demand. However, the district court's finding concerning the unified nature of the market for the trait and the seed is not relevant to our holding, so we expressly decline to reach or review it. McFarling is not alleging that he is unable to, or even that he desires to, purchase a "natural" soybean seed and the ROUNDUP READY® genetic trait as distinct items; he alleges only that Monsanto refuses to grant him a license to use the second-generation genetically modified

seeds in his possession after harvest in his preferred manner.

VII

McFarling asks that we reconsider our ruling in *McFarling I* that the Plant Variety Protection Act does not demonstrate a congressional intent to preempt and invalidate all prohibitions on seed saving contained in utility-patent licenses. *See McFarling I,* 302 F.3d at 1299 ("[T]he right to save seed of plants registered under the PVPA does not impart the right to save seed of plants patented under the Patent Act."). We remain unpersuaded by McFarling's arguments.

In *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred International, Inc.,* 534 U.S. 124 (2001), the Supreme Court held that plants were subject matter eligible for utility-patent protection under 35 U.S.C. § 101, *J.E.M. AG Supply,* 534 U.S. at 130-32, and that hybrid seeds also eligible for protection under the PVPA were not an exception to that general rule, *id.* at 138-44. In considering whether Congress's enactment of the PVPA implicitly altered the scope of patentable subject matter under section 101, the Court recognized that "there are no exemptions for . . . saving seed under a utility patent," *id.* at 142, as there is in the PVPA, *see* 7 U.S.C. § 2543 (2000), yet it held nonetheless that the two statutory schemes could "mutually coexist," *J.E.M. AG Supply,* 534 U.S. at 143 (internal quotation marks omitted). In light of the Supreme Court's interpretation of Congress's intent, we conclude that Congress did not intend to prohibit owners of utility patents from enforcing seed-saving prohibitions in their licenses.

VIII

Finally, McFarling argues that the district court erred in holding that the 120 multiplier on the technology fee in the Technology Agreement was a valid and enforceable liquidated damages clause under Missouri law. Upon independent review, *see Robert Blond Meat Co. v. Eisenberg,* 273 S.W.2d 297, 299 (Mo. 1954) (holding that the validity of a liquidated damages clause is a question of law and reviewing it without deference), we agree with McFarling that the liquidated damages clause in the Technology Agreement is invalid and unenforceable under Missouri law as it applies to McFarling's breach of replanting of saved seed.

A

Missouri law distinguishes between liquidated damages clauses, which are valid and enforceable, and penalty clauses, which are neither. *See Diffley v. Royal Papers, Inc.,* 948 S.W.2d 244, 246 (Mo. Ct. App. 1997); *Paragon Group, Inc. v. Ampleman,* 878 S.W.2d 878, 880-81 (Mo. Ct. App.1994); *Burst v. R.W. Beal & Co.,* 771 S.W.2d 87, 90 (Mo. Ct. App. 1989); *Grand Bissell Towers, Inc. v. Joan Gagnon Enters., Inc.,* 657 S.W.2d 378, 379 (Mo. Ct. App. 1983).

"For a damage clause to be valid as fixing liquidated damages: (1) the amount fixed as damages must be a reasonable forecast for the harm caused by the breach; and (2) the harm must be of a kind difficult to accurately estimate." *Diffley,* 948 S.W.2d at 246; *see also Paragon Group,* 878 S.W.2d at 881 (citing the Restatement (First) of Contracts and the Restatement (Second) of Contracts as the sources of the Missouri rule); *Grand Bissell Towers,*

657 S.W.2d at 379 (same). The two prongs of this conjunctive test are interrelated. "If the difficulty of proof of loss is great, considerable latitude is allowed in the approximation of anticipated or actual harm." *Luna v. Smith,* 861 S.W.2d 775, 779 (Mo. Ct. App. 1993) (quoting Restatement (Second) of Contracts § 356, cmt. b); *see also Paragon Group,* 878 S.W.2d at 881 ("Where the difficulty of [measuring] loss is great, significant latitude is allowed in setting the amount of anticipated damages."). "The courts tend to construe such [contractual damages] stipulations, if doubtful, as punitive in nature." *Wilt v. Waterfield,* 273 S.W.2d 290, 295 (Mo. 1954).

To survive the first prong of the Missouri test, a contractual damages provision "must be fixed on the basis of compensation." *Diffley,* 948 S.W.2d at 247. The reasonableness of the contractual damages provision is measured relative to an estimation, made at the time of contracting, of the compensation that would be required to negate the harm to the nonbreaching party in the event of breach.[2] *See Diffley,* 948 S.W.2d at 246 (discussing "a reasonable forecast for the harm"); *Burst,* 771 S.W.2d at 90 ("[T]he damages fixed . . . must not be unreasonably disproportionate to the

[2] Some Missouri cases suggest that a liquidated damages provision satisfies this first test if the damages are reasonably related to either the loss anticipated at the time of contracting or the loss that actually occurred upon breach. *See Paragon Group,* 878 S.W.2d at 881 (quoting Restatement (Second) of Contracts); *Luna,* 861 S.W.2d at 779 (same). Because $780,000.00 is grossly disproportionate to the loss that Monsanto actually suffered in loss of technology fees due to McFarling's replanting of saved seeds, however, the contractual damages provision in the Technology Agreement can only survive if it was a reasonable forecast of damages at the time the contract was signed. Monsanto does not argue that the damages award in the district court should be upheld because it is reasonable in light of actual damages.

amount of harm anticipated when the contract was made."); *Grand Bissell Towers,* 657 S.W.2d at 379 ("These rules requiring some reasonable relation between the damages agreed upon and those expected to result from the breach are not rules about actual damages."); *see also Info. Sys. & Networks Corp. v. Kansas City,* 147 F.3d 711, 714 (8th Cir. 1998) (interpreting Missouri law to require that "[t]he validity of the liquidated damages clause must be viewed at the time the contract was executed"). In contrast, penalty clauses are impermissible because they are "designed primarily to compel performance" at the time of contracting. *Wilt,* 273 S.W.2d at 295; *see also Diffley,* 948 S.W.2d at 247; Restatement (Second) of Contracts § 356, cmt. a (1981) (noting that the "central objective behind the system of contract remedies is compensatory, not punitive," and that liquidated damages provisions may not "disregard the principle of compensation").

For a contractual damages provision to survive the second prong of the Missouri test, it must be anticipated that the loss will be difficult to measure at the time breach is discovered; difficulty in measuring the extent of damages at the time of contracting is not sufficient. In *Luna,* for example, a Missouri court of appeals looked to the "determination that the amount of damages *actually sustained by defendants* would have been difficult to prove" in order to determine that proof of loss was difficult and that the liquidated damages clause was valid. 861 S.W.2d at 780 (emphasis added). Likewise, in *Paragon Group,* a Missouri court of appeals relied on the principle that "*actual damages for breach* of real estate sales contracts are uncertain and difficult to prove" to determine that proof of loss was difficult to determine. 878 S.W.2d at

881 (emphasis added); *see also Carmel v. Dieckmann,* 617 S.W.2d 459, 461 (Mo. Ct. App. 1981) ("Liquidated damage provisions in real estate contracts are frequently utilized because the actual damages in an action for breach are 'uncertain in amount and difficult to ascertain or prove.'" (quoting *Stein v. Bruce,* 366 S.W.2d 732, 736-37 (Mo. App. 1963))). The harm that will flow from a breach is difficult to estimate at the time of contracting in nearly all contracts requiring ongoing performance, because the time of breach is not known at the time of contracting. Only by measuring the difficulty of proving loss at the time of the discovery of the breach is the second prong of the Missouri test interpreted as something other than a truism.

One long-standing litmus test that the Missouri courts use to determine whether a contractual provision determining damages is a reasonable estimate of the anticipated harm is what we term the "anti-one-size rule":

> [A] court may consider whether the agreement contains various stipulations of various degrees of importance, the breaches of which would be easy to calculate in damages as to some and difficult as to others, in which event the sum specified would be construed as a penalty and not as liquidated damages "even though the parties in express terms have declared the contrary."

Wilt, 273 S.W.2d at 295 (quoting *Sylvester Watts Smyth Realty Co. v. Am. Sur. Co. of N.Y.,* 238 S.W. 494, 499 (1921)); *see also Plymouth Sec. Co. v. Johnson,* 335 S.W.2d 142, 152 (Mo. 1960) ("Where a contract of sale contains several distinct covenants of various degrees of importance and the damages for breaches would be easy to calculate as to some of them and difficult as to others, the specification of a sum of money or definite property as damages for

breach of the contract will be construed as a penalty designed to insure performance, even though the parties have expressly declared the provision to be one for liquidated damages."); *Morse v. Rathburn,* 42 Mo. 594, 601 (1868) ("[W]hen the agreement contains several distinct covenants, on which there may be divers breaches, some of an uncertain nature and others certain, with one entire sum to be paid on breach of performance, then the contract will be treated as one for a penalty, and not for liquidated damages."); *Jennings v. First Nat'l Bank of Kan. City,* 30 S.W.2d 1049, 1054 (Mo. Ct. App. 1930).

This fixed rule of Missouri contract law is not unusual. Variations on this anti-one-size rule are applied in a number of jurisdictions. *See, e.g., United States v. J.C. Martin Lumber Co.,* 246 F.2d 58, 62 (5th Cir. 1957) (applying Mississippi law) (labeling a contractual damages clause as a penalty clause when it provides for double payment and "without discrimination, provides the same penalty for leaving marked trees uncut as for cutting unmarked tress, and, as to trees injured through carelessness, provides the same penalty without regard to the extent in each case of the injury"); 22 Am. Jur. 2d Damages § 709 (2003) (citing cases).

The anti-one-size rule is an intuitive corollary of the two-prong Missouri test that applies when a single formula for liquidated damages applies to multiple provisions in the contract. The rule highlights that both prongs of the test must be satisfied for each contract provision or each type of breach to which the contractual damages provision pertains. It reminds us that the validity of a damages clause must be measured on a provision-by-provision basis; the fact that the harm flowing from the breach of one provision may be difficult to measure does not validate

a contractual damages provision as it applies to the breach of another provision. Additionally, the anti-one-size rule provides a rule of thumb assay to determine if a contractual damages provision was fixed on the basis of compensation: If the same formula is used to calculate damages for breaches of two different provisions that would be expected to require two substantially different methods of compensation, then the contract on its face admits that the parties did not view the specified damages as compensatory. In some cases, this evidence intrinsic to the contract may provide a more reliable measure of the parties' intent than a hindsight comparison of the sum specified in the contract and the damage award required to compensate the nonbreaching party for the damages actually sustained.

B

We conclude that the 120 multiplier in the Technology Agreement is not valid under Missouri law. It was not, at the time of contracting, a reasonable estimate of the harm that Monsanto would likely suffer in the event that McFarling breached the contractual prohibition on saving ROUNDUP READY® soybeans.

Monsanto's principal argument to the contrary is that ROUNDUP READY® soybeans can self-replicate at an exponential rate. One bag of soybean seed can yield 36 bags of soybean seed to save for the following season, although this figure may vary with different types of crops, seed varieties, geographic growing locations, planting rates, cultural practices, and growing conditions, among other factors. Based on this figure together with assumptions of infinite acreage on which to plant and no

commercial sale of any soybeans, a farmer planting one bag of soybeans in year one would reap 36 bags to replant in year two, 1296 bags to replant in year three, and 46,656 bags to replant in year four. This simple narrative is forceful insofar it illustrates the potential magnitude of the harm that Monsanto could suffer from losing control of its proprietary technology. However, an illustration that breach of the Technology Agreement under particular conditions may be reasonably expected to lead to harm of a great magnitude is not sufficient to uphold the validity of the damages clause in its entirety. The damages clause is not valid as applied to the provision of the Technology Agreement that prohibits saving soybean seed and that was breached by McFarling. In other words, the 120 multiplier does not pass muster under Missouri's anti-one-size rule.

1

The 120 multiplier in the Technology Agreement violates the anti-one-size rule because the identical Technology Agreement is used to govern a grower's rights with respect to several different crops that would be expected to replicate at different rates. If the anticipated harm flows from the self-replicating capacity of genetically modified seeds, then a reasonable estimate of compensation upon breach must logically be adjusted to incorporate the different rates of self-replication. The Technology Agreement makes no such adjustment.

The Technology Agreement signed by McFarling is used with Monsanto's proprietary strains of genetically modified cotton, soybeans, and corn: "This Monsanto Technology Agreement covers Roundup Ready® cotton,

Bollgard® cotton, Bollgard® with Roundup Ready® cotton, Roundup Ready® soybeans, YieldGard® corn and Roundup Ready® corn." The report of Monsanto's damages expert and Monsanto's brief on appeal assume "a ratio of 36 to 1 for seed produced from seed planted" to calculate the harm from the self-replication of soybeans from one growing season to the next. This same report, however, quotes Monsanto's 1997 Technology Agreement applicable to cotton only as stating that "[t]he average ratio of cotton seed produced from cotton seed planted is 120 to 1." (Based on the information presented in this report, the 120 figure first appeared in this cotton-only license and was only subsequently used in the cotton-soybean-corn license.) Because the rates of self-replication of cotton and soybeans differ by over a factor of three,[3] it is difficult to understand how the same 120 multiplier as applied to the technology fee could be a reasonable forecast of harm in the event of a breach by both a cotton farmer and a soybean farmer.

2

The 120 multiplier in the Technology Agreement also violates the anti-one-size rule because it specifies the same measure of damages in the event of breach of several different restrictive provisions of the contract that lead to different types of damage. The licensee can trigger the 120 multiplier in the Technology Agreement by violating any one of several distinct provisions: "In the event that the Grower *saves, supplies, sells* or *acquires seed for replant* in

[3] The record does not contain information concerning the self-replication rate of corn.

violation of this Agreement and license restriction . . . the Grower agrees that damages will include a claim for liquidated damages . . . " (emphases added). We conclude that the nature of the harm to Monsanto flowing from breach of the provision prohibiting seed saving is fundamentally different from the nature of the harm to Monsanto flowing from breach of the provision prohibiting seed supplying and seed selling.

In fact, Monsanto repeatedly acknowledged the importance of the distinction between seed saving by the farmer for replant on his own farm and seed transfer to third parties for replant. Monsanto argued in its brief that "[w]hether an infringer saves seed for himself only or transfers saved seed to other growers . . . significantly impacts the multiplier effect and the harm to Monsanto." Additionally, the following exchange occurred at oral argument between the court and Monsanto's attorney:

> Court: [T]he character or quality of the breach when [McFarling] breaches on his own farm is really different from Monsanto's perspective than the quality of the breach if he goes to the county fair and sells 5000 bags to 5000 different purchasers. Am I right?
>
> Counsel: Absolutely. And that's why the 120 times multiple is so reasonable.

In a post-argument letter, Monsanto responded to the court's citation of *Wilt,* as well as to the suggestion made during oral argument "that the [contractual damages] provision might be reasonable as applied to a grower who breached by selling saved seed, but not to one who breached by planting saved seed." Monsanto argued that the contractual damages provision was reasonable because

Monsanto "cannot know whether a grower bent upon breach will do so by transferring or replanting saved seed, or both." Monsanto did not argue that the harms caused by the two distinct breaches of transferring and saving seed were similar in nature.

Under the anti-one-size rule, a liquidated damages clause is invalid if even one breach covered by the clause fails to qualify for enforceability as liquidated damages. Since the breach of seed saving cannot warrant liquidated damages, for the reasons we state, we need not consider the consequences of the breach of acquiring seed for replant. Proof of loss is of course substantially more difficult when the breaching farmer supplies or sells the seed to another farmer in violation of the agreement. If a farmer transfers seed to a third-party for replant, Monsanto not only has no privity of contract with the purchasers, but it also faces difficulty tracing the seed, locating and deposing the individuals who purchased it, and thus determining the amount of harm caused by the breach. In this situation, the difficulty of proof of loss would be considerable. However, if a farmer saves seed for replant in a future growing season, the number of bags planted is more readily ascertainable from a single defendant who is in privity with Monsanto.

Monsanto's expectation of the compensable loss flowing from the breach should also be lower when the breaching farmer replants on his own farm. The testimony of Monsanto's own damages expert suggests that a distinction between replanting and transferring is in part due to different rates of seed-replication in each scenario. The acreage of an individual grower for replanting is finite, placing a brake on the replication rate, whereas the geographical area available to plant resold seed is practically

unlimited. Monsanto's damages expert assumed that soybeans self-replicated at a linear rather than an exponential rate in his only example demonstrating the harm to Monsanto that could flow from a farmer breaching by replanting seed rather than by transferring seed. The damages expert presumed that the farmer would save the same amount of seed each year, likely just enough to plant the farm's acreage.

Additionally, the harm flowing from a farmer's decision to replant soybeans on his own farm can be arrested through injunctive relief such as the preliminary injunction Monsanto received in this case. Because of the difficulty of tracing seed once it has left the purchaser's farm, however, injunctive relief may never fully arrest the harm that would flow from the transfer of seed to a third party for replant. Thus, when the contractual damages clause is applied to calculate the damages arising from the replanting of seed on the purchaser's farm, the reasonableness of the 120 multiplier as a forecast of compensation must be measured vis-a-vis the harm that would occur between the date on which breach by replanting occurred and the date on which some form of injunctive relief could be obtained.[4]

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[4] If we were to reference future harm in our determination of whether the 120 multiplier is a reasonable forecast, McFarling's payment of the liquidated damages clause would amount to a license to practice the licensed technology in perpetuity. Monsanto would already have been compensated for all future use of the seed, and Missouri law does not permit double recovery via liquidated and actual damages for the same injury. *See Twin River Constr. Co. v. Public Water Dist. No. 6*, 653 S.W.2d 682, 694 (Mo. Ct. App. 1983).

Because it sought to reserve the possibility of permanent injunctive relief, Monsanto at oral argument stated that it did not believe that the 120 damages multiplier was intended to compensate it completely for all the harm that could ensue from a breach, extending from the time of

(Continued on following page)

When the contractual damages clause is applied to calculate the damages arising from the transfer of seed to third parties, however, the 120 multiplier as a reasonable forecast of compensation may be measured by the possibility of long-term, unenjoined use of the seed by unidentified purchasers.

Because Monsanto could not have known at the time of contracting whether McFarling would breach the no-seed-transfer provisions or the no-seed-saving provision of the Technology Agreement, Monsanto argues that the harm is of a kind that is difficult to estimate, and that this difficulty of estimating harm should forgive the breadth of breaches of different magnitudes covered by the same damages formula. *See Luna,* 861 S.W.2d at 779 ("If the difficulty of proof of loss is great, considerable latitude is allowed in the approximation of anticipated or actual harm."). This argument fails for two reasons.

First, as explained above, the contracting parties must expect at the time of contracting that the actual harm will be difficult to measure at the time of breach. *See id.* at 780; *Paragon Group,* 878 S.W.2d at 881. In other words, actual harm must be difficult to calculate when one traditionally calculates harm in a contract cause of action; uncertainty only at the time of contracting is insufficient.

---

the breach into the indefinite future. Instead, Monsanto reserved the right to seek a permanent injunction against McFarling, arguing that the 120 multiplier could be a reasonable forecast "of the amount of past harm . . . that could have occurred as of the time that Monsanto obtained a contract judgment." That is, the 120 multiplier was "a reasonable estimate of the range of injury that would have already occurred by the time that Monsanto could (a) discover a violation, (b) bring a lawsuit, and (c) obtain a judgment" enabling an injunction, preliminary or permanent.

Second, a violation of the anti-one-size rule cannot be explained away merely by stating that one is unsure, at the time of contracting, which provision of the contract will be breached. Monsanto asserted in its post-argument letter that the damages provision did not violate the anti-one-size rule because "[a]t the time of contracting, Monsanto cannot know whether a grower bent upon breach will do so by transferring or replanting saved seed, or both." Monsanto, however, misunderstands the rule. Were Monsanto's formulation of the anti-one-size rule correct, the rule could never be enforced because the parties can never know, at the time of contracting, whether one or another of the contractual provisions, the breach of which is covered by a damages clause, will in fact be breached.

In summary, we hold that the 120 multiplier in the Technology Agreement is an unenforceable penalty clause because it violates the anti-one-size rule: While we express no opinion on whether the clause would be a reasonable forecast of the compensation required to make Monsanto whole upon breach of the contractual provision prohibiting supplying or selling seed to third parties, we conclude that it is not a reasonable estimate of the harm that would be anticipated to flow from breach of the provision prohibiting replanting seed.

3

As interpreted by the district court, the 120 multiplier in the Technology agreement also fixes an unreasonable forecast of compensation because it is measured by the number of bags purchased, a number which does not necessarily relate to the number of bags replanted, supplied or sold.

The damages specified in the Technology Agreement are measured by multiplying the number 120 by the "applicable technology fee." As an issue of contract interpretation, the district court held that the "applicable technology fee" is measured by multiplying the $6.50 per-bag technology fee by the number of bags *purchased* in connection with the execution of the technology agreement. However, the number of bags *replanted or transferred* is the more accurate departure point for measuring harm. The harm caused by McFarling to Monsanto in the next year's growing season would be ten times greater to Monsanto if McFarling saved or transferred ten times more seed with the intent that it be replanted. There is no necessary relation, however, between the number of bags purchased and the number of bags replanted or transferred. McFarling would cause Monsanto a specific amount of harm if he saved a thousand bags of seed and replanted it for only one year, but he would be obligated to pay a vastly different amount of damages under the district court's interpretation of the Technology Agreement if he had purchased a hundred or a thousand bags. It is therefore difficult to understand how any figure based on the number of bags purchased, rather than replanted or transferred, is a reasonable forecast of compensation.

C

Monsanto also argues that the 120 multiplier was justified based on types of harm other than the harm from the self-replicating nature of the soybean seeds. We disagree.

Monsanto argues that the 120 multiplier is a reasonable forecast because it includes harm to Monsanto's

ROUNDUP READY® brand. As Monsanto's expert testified, "[t]he loss of quality control may result in reduced yields, improper seed segregation and lower quality crops, causing a reduction in the value of Monsanto's brand" to purchasing farmers. We are skeptical of the magnitude of harm to Monsanto's ROUNDUP READY® brand that would flow from violations of the licensing agreement. Damage to a brand occurs when a consumer, here the farmer, receives a substandard product believing that the product is genuine. The farmer who saves and replants seeds, however, is well aware that he is not using the seeds in accordance with the terms required by Monsanto, and he is able to attribute any alleged reduction in quality of the second- or third-generation seeds to his own decision to replant rather than to Monsanto's initial product. Without denying that some minimal harm to the ROUNDUP READY® brand may result from a decision to save and replant seed, we do not believe that this harm contributes significantly to justifying a 120 multiplier as a reasonable forecast of the damages for breach of the Technology Agreement. Were McFarling to sell the saved seeds to other farmers and pass them off as first-generation seeds rather than as the second-generation seeds that they are, however, the potential for harm to the brand would increase. *Cf. ante* Section VIII.B.2 (discussing the differences between breaching by replanting and breaching by reselling).

Monsanto next argues that the 120 multiplier is necessary because if McFarling's breach in the form of saving and replanting seed were to pass undetected, then McFarling would gain a competitive advantage in the marketplace. "[O]therwise law abiding growers" would then be encouraged "also to use saved soybean seed

containing Monsanto's patented ROUNDUP READY® biotechnology" in order to compete. This argument, however, is inimical to the compensatory nature of contract remedies: it sounds in deterrence, not compensation, and therefore suggests that the multiplier is in the nature of a penalty clause rather than a liquidated damages clause.

Finally, Monsanto argues that it loses the revenue from its technology fee each time a saved bag of ROUNDUP READY® soybeans is replanted. We agree that Monsanto suffers this harm, and we have no reason to suspect that the technology fee does not "reflect[] a reasonable return on Monsanto's significant research and development expenditures" as Monsanto argues. Yet, this argument standing by itself suggests that the technology fee alone, rather than 120 times the technology fee, is a reasonable forecast of harm.

D

When a damages clause is a penalty clause, the clause is unenforceable under Missouri law and only actual damages are available. *See Wilt*, 273 S.W.2d at 295 ("Where the sum named in a contract to be paid in a breach is held to be a penalty clause and not liquidated damages, the amount of recovery is only the actual damages sustained." (internal quotation marks omitted)). We therefore remand to the district court to compute actual damages based on the number of bags of seed saved and replanted.

IX

In conclusion, we affirm the district court's entry of summary judgment against McFarling on Monsanto's

breach-of-contract claim on liability only. McFarling does not contest the prima facie case made by Monsanto that he breached the Technology Agreement, and he has not presented a genuine issue of material fact concerning his defenses as argued in the court below. We also affirm the district court's dismissal of McFarling's antitrust counterclaim. However, we vacate the district court's damages award because we hold that under Missouri law the provision in the Technology Agreement applying a 120 multiplier to the technology fee is an unenforceable and invalid penalty clause. We therefore remand to the district court for determination of actual damages, and for any other proceedings not inconsistent with this opinion.

COSTS

No costs.

AFFIRMED-IN-PART, VACATED-IN-PART AND REMANDED

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

MONSANTO COMPANY,	)	
Plaintiff,	)	
vs.	)	Case No. 4:00CV84 CDP
HOMAN MCFARLING,	)	
Defendant.	)	

ORDER

(Filed Nov. 15, 2002)

For the reasons stated in Monsanto's Supplemental Motion for Summary Judgment and Monsanto's Motion for Entry of Final Judgment,

IT IS HEREBY ORDERED that plaintiff's Supplemental Motion for Summary Judgment [#178] is granted, and Monsanto is entitled to summary judgment on its claim for breach of the 1998 contract (contained in Count III of its complaint) in the amount of $780,000.00.

IT IS FURTHER ORDERED that Monsanto's motion pursuant to Rule 54(b), Fed. R. Civ. P., for entry of final judgment [#176] on Monsanto's claim for breach of the 1998 contract is also granted. I find that there is no just reason for delay in entering judgment on this claim, as all issues regarding Monsanto's claim for breach of the 1998 contract and damages on that claim have been fully and finally resolved. I will therefore enter final judgment today on this claim only.

IT IS FURTHER ORDERED that, at the parties' joint request, the case is removed from the December 2, 2002 trial docket, and trial of the remaining claims will be postponed, so that the parties can appeal the final judgment entered on the 1998 contract claim. The following claims from plaintiff's complaint remain to be reset for a later trial; Count I (all issues); Count II (damages only); Count III (all issues with regard to the 1997 contract only); Count IV (all issues); and Count V (all issues). The parties are directed to immediately notify this Court when the appeal is final and the remaining claims can be reset for trial.

/s/ Catherine D. Perry
CATHERINE D. PERRY
UNITED STATES
DISTRICT JUDGE

Dated this 15th day of November, 2002.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

MONSANTO COMPANY, Plaintiff,	)	
vs.	)	Case No. 4:00CV84 CDP
HOMAN MCFARLING, Defendant.	)	

FINAL JUDGMENT UNDER RULE 54(B)

(Filed Nov. 15, 2002)

In accord with the Order entered this same date,

IT IS HEREBY ORDERED, ADJUDGED and DECREED that final judgment pursuant to Rule 54(b), Fed. R. Civ. P., is entered as follows: Plaintiff Monsanto Company shall have judgment against defendant Homan McFarling in the amount of $780,000.00 as final judgment on plaintiff's claim for breach of the 1998 contract, as contained in Count III of plaintiff's complaint.

/s/ Catherine D. Perry
CATHERINE D. PERRY
UNITED STATES
DISTRICT JUDGE

Dated this 15th day of November, 2002.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MISSOURI

MONSANTO COMPANY,

Plaintiff,

vs. No. 4:00-CV-84 CDP

HOMAN MCFARLING,

Defendant.

PRESENT: The Honorable Catherine D. Perry, Presiding

ATTORNEYS FOR PLAINTIFF: Joseph C. Orlet and Erik L. Hansell

ATTORNEY FOR DEFENDANT: Jim Waide

Hearing on Motion for Summary Judgment
November 5, 2002

TERI HANOLD HOPWOOD
Registered Merit Reporter
Thomas F. Eagleton Courthouse
111 South Tenth Street, Room 3.348
St. Louis, Missouri 63102

* * *

[42] problem to use it for ten years, would it? No. If you look at those scenarios, we're talking about just a matter of four years in Mr. Scruggs' case, those scenarios in Mr. Hoffman's report where we get up into 700 times, 700 times multiplier, those are only four years as well. But if there is only one year of infringement, it is obviously a lot lower.

I think that this 120 is very reasonable, and I think we made the proofs necessary for the Court to find a reasonable liquidated damages provision, and not a penalty provision in this case. Thank you.

THE COURT: Okay. Here is what I'm going to do. I'm going to take a five-minute recess, and I'm going to come back in and tell you all what I'm going to do on this case. Actually it will be a ten-minute recess. So I'll be back out at 3:15, and I will, I hope, give you my rulings at that time.

(A recess was taken.)

THE COURT: All right, here is what I am going to do on these pending motions, and although I will enter an order setting out my rulings on the motions, I'm not issuing an opinion setting out the reasons for the ruling. I'm telling you that now. So this statement of my reasons is the only one you get. I'm not going to write one out, in other words, but I will write out an order.

I am going to grant the motion for summary judgment on the counterclaims, and I'm going to grant it in part and deny [43] it in part on the plaintiff's claims, and let me start by going through the defendant's counterclaims. The first – on each of these, of course, I'm applying the summary judgment standards. There was an earlier motion to dismiss that was filed that I never ruled on while all this was going on, and I'm simply going to deny that as moot. I'm doing this on the basis of the summary judgment standard as to viewing the facts and inferences in the light most favorable on the counterclaim to the defendant, that is to Mr. McFarling, and determining whether there are any disputes of material fact, and therefore, whether Monsanto is entitled to judgment as a matter of law on the

counterclaims, and in each case I find that even when I view the undisputed evidence in the light most favorable to Mr. McFarling, Monsanto is still entitled to summary judgment because there are no disputes of material fact.

So going through those counterclaims, the first one is the invasion of privacy and trespass claim, and Mr. McFarling has confessed summary judgment on that, so I don't need to discuss it further.

The second one, the second counterclaim was malicious interference with a business expectancy. I believe that Mississippi law would apply to this claim because everything about it happened in Mississippi, and so therefore it has the most significant relationship to this claim, and so even [44] though some of the other claims in this case are governed by Missouri law, this claim would be governed by Mississippi law.

The elements of that tort in Mississippi are very similar to those in Missouri, and basically that the acts were intentionally willful and they were calculated to cause damage to the plaintiff in his lawful business, and were done with the unlawful purpose or lack of justification, and that there were damages.

Monsanto has pointed to the absence of any evidence in the record to show that McFarling could prevail on this claim, and I find that there is no genuine dispute of material fact. There is no evidence in the record showing that Monsanto's acts as alleged in the counterclaim were calculated to cause damage to McFarling's business or were done for any unlawful purpose. The evidence to the contrary, undisputed, shows that Monsanto is simply enforcing its rights under its patents and its contracts.

Similarly, with abuse of process, which is the third counterclaim, this one would have Missouri law because this is – it's the process in this case that would be at issue, and in this case, there is no evidence that Monsanto made any illegal or improper use of the process that was issued. Again it's sort of the same factual – lack of factual dispute as on Count Two, and that's a necessary element of the tort of abuse of process, and there is simply no evidence in the record to [45] show any improper or illegal use of the process.

The fourth counterclaim is the violation of the Plant Variety Protection Act, and as Mr. Waide recognized, and even though he has made his arguments and has preserved them in his briefs, it's pretty clear under the Supreme Court decision of *JEM Ag Supply versus Pioneer Hi-bred* that this claim cannot survive as a matter of law, because that case did hold that plants could be patented under the Utility Patent Act, which is what happened here, and there is no independent cause of action under that statute, so it would be a declaration that the patents were invalid, and it appears they are valid, or that this is not a ground for setting them aside. So I will grant summary judgment on Count Four for that reason.

I'm jumping ahead. Counterclaim 7, the Mississippi antitrust law, the defendant has confessed summary judgment on, so plaintiff is entitled to summary judgment on that as well. That leaves then the three remaining counterclaims, which are Counterclaim Number 5, which alleges monopolization, attempted monopolization and conspiracy to monopolize, and Counterclaim 6, which alleges an unreasonable restraint of trade, and Counterclaim 7 that alleges patent misuse, and I'm going to

discuss these somewhat together. The patent misuse is a little different.

Well, let me talk about the patent misuse claim first. In that one, the plaintiff – I mean the defendant, [46] Mr. McFarling, alleges that Monsanto has engaged in patent misuse by impermissibly broadening the scope of its patent grant, and there is just no evidence whatsoever to support this argument. The law is clear that where there is a license agreement, as the first sale doctrine doesn't apply, and that single use licenses are appropriate, and that this is simply within the scope of this patent, so that's the reason for my denial or granting summary judgment on the patent misuse claim to the extent it's separate from the antitrust claims. Somewhat the patent misuse also has elements of antitrust, and the reasons I'm stating now for granting summary judgment on the antitrust claims also applies to that one.

First, I do believe that Mr. McFarling lacks standing to bring antitrust claims under any of the statutes he has cited. He is an indirect purchaser, and he does not have standing to bring such a claim. He also has not suffered any antitrust injury as required by the statutes, and so he does not have standing for those two separate reasons, and they are two separate doctrines. Both of them would preclude his counterclaim.

Alternatively, and I believe this goes both to the counterclaims – everything else I've said here goes to all of the counterclaims and to the extent they are recast as affirmative defenses, it knocks them out at affirmative defenses as well.

[47] With regard to antitrust, alternatively, on the undisputed facts here, there is simply no evidence that

Monsanto has exercised monopoly power or attempted or conspired to do so, or has illegally restrained trade. If the market – and I want to try to avoid ruling on the qualifications of the experts and whether the expert opinions could be given. The expert reports in this case have a lot of different things in them, and there are also – different pieces are relied on at different times and there is also the depositions of the experts. I don't know if we were actually to have had a trial exactly what these experts would have said, and perhaps I would have had a separate *Daubert* hearing to have previewed their testimony to understand exactly whether they are qualified to make their statements, but even if I assume on the essential material facts that I would have heard their testimony, I still believe that I would grant summary judgment on these antitrust counterclaims.

Mr. McFarling's expert, there is an agreement that the market is the soybean market in the United States. If you define that market – if you take the undisputed facts and define them as Mr. Tollison has, you can say that Monsanto has more than 65 to 70 percent of the market. If you define it, interpret those facts as Monsanto does, you will say they have 20 to 25 percent of the market. But the facts leading up to that are undisputed. This is an issue of law, or how to [48] interpret the facts, because Monsanto – the undisputed facts show that Monsanto sells the trait to – or licenses the trait to other soybean seed producers, who then produce genetically modified seeds. I don't believe that that means that Monsanto controls the market, and even if I accepted the defendant's experts' theories on this, it would not show that Monsanto has market power, because Monsanto is charging a technology fee, and not setting the prices on any of those seeds, or

otherwise directing the activities of people who are, I believe, its competitors, and I believe are still shown to be its competitors, so I don't believe that you can make the assumption that is made by the defendant's experts to get to the exercise of market power.

Again, as I stated, the single use licenses that have been issued in this case have been upheld by the courts. There is nothing unlawful about granting a single use license, and a patent holder who has a lawful patent can't be liable for maintaining a monopoly of power based simply on refusing to license the patent to others. That's what a patent gives you. That's the patent grant, and you can't be liable under antitrust for exercising your valid patent rights.

Now, the tying arrangements I need to address. Mr. McFarling is no longer arguing that the tying is – that Monsanto is forcing him to buy seeds tomorrow when he buys seeds today, and that's no longer an issue in the case, but if [49] it were, I would have rejected it for the same reason that others have recognized. But what he is arguing is that the trait and the seed are separate products, and that the tying is that Monsanto is forcing the farmer to buy the seeds when the farmer buys the traits.

I believe that these are not separate products. It's not requiring purchase of a second item in order to buy a first item. I believe that they are, in fact, they are not two distinct products or services, and that be an element for a tying claim. I think that's clear if you just think about what could happen. The farmer can't go buy these two separate places, and couldn't even in the absence of Monsanto's agreements, because the farmer can't do the

genetic engineering. That has to be done in the production of the seed.

These products are not being illegally tied by any actions of Monsanto. They are inherently tied together as one single product, because the genetic trait is contained in the seed, and for there to be a seed capable of being planted, it has to have been propagated after the insertion of the gene, and so there is simply not two separate products, and that's another reason for rejecting on the merits the tying claim.

So those are my reasons for granting summary judgment on the defendant's counterclaims in favor of plaintiff on all of those counterclaims. I believe that each of those reasons [50] also provides a basis for striking the affirmative defenses based on the same theories as is insufficient, and I don't believe that the defendant – well, the defendant will not be allowed to present evidence of the affirmative defenses for the same reasons that the counterclaims fail.

Now, Monsanto has also moved for summary judgment on its own claims – on two of its own claims. Monsanto has five counts in this case, and it has not moved to summary judgment on Count One of patent infringement of what we refer to as the '435 patent. It has not moved for summary judgment on Count Four, its conversion count, or on Count Five, its unjust enrichment count. Those were the counts that were in the first amended complaint that was filed back in May. Even if Monsanto has forgotten them, I haven't. So, they are still around and will be heard at trial.

Monsanto has moved for summary judgment on Count Two, its patent infringement claim for the '635 – I'm sorry,

the '605 patent, and the undisputed evidence shows that Mr. McFarling infringed the patent by saving and replanting the seeds. He has admitted the same, and there are no valid defenses, so Monsanto is entitled to summary judgment on that claim of patent infringement.

That is a summary judgment on liability only. The issue of damages remains to be tried on the patent infringement count.

[51] On Count Three, Monsanto has moved for summary judgment on its breach of contract claim. The breach of contract claim in the second amended complaint refers back to the facts and incorporates them by reference, and refers therefore to two separate contracts, the '97 technology agreement, and the '98 technology agreement. The undisputed facts show that Mr. McFarling signed both of these contracts.

However, with regard to the '97 technology agreement, there is insufficient evidence in the record before me for me to know what it said. It's not – there is no undisputed pieces of paper that says that is the '97 agreement. We have the front of it, but we don't have the back of it, so I don't know what the contract provisions are that Mr. McFarling allegedly breached in the '97 contract, and there has been some discussion about it, both at the preliminary hearing and in the papers, and again today, but in the record on summary judgment, the terms of the '97 technology agreement are not apparent, and therefore, summary judgment will be denied on the breach of contract claim for breach of the 1997 technology agreement.

Now, with regard to the 1998 technology agreement, I believe that Monsanto has shown that it is entitled to summary judgment on the breach of contract claim as to

liability, but not as to damages. We have the terms of the 1998 technology agreement by the terms Mr. McFarling promised that he would [52] not save and reuse the seeds. He has admitted doing so. He has admitted breaching that agreement, and that is undisputed, so Monsanto is entitled to summary judgment on liability.

With regard to damages, I do not believe that Monsanto is entitled to summary judgment on the breach of contract claim. The liquidated damages provision says – let me say something about the '97 agreement. The one thing I am sure of, or at least I'm pretty sure of, is that the '97 agreement must have somewhat different language than that contained in the '98 agreement because the '435 patent wasn't issued until after Mr. McFarling signed the '97 agreement, and it's referred to in the '98 agreement, and so I have to believe that the '97 technology agreement wouldn't have the same language at least in that respect, so I don't know what it says, but that one patent wasn't even issued yet and it is referred to in the '98 technology agreement, because of course by then it was in effect.

The liquidated damages provision says that in the event of a breach, the grower agrees that damages will include a claim for liquidated damages which will be based on 120 times the applicable technology fee. Now the undisputed evidence is that the applicable technology fee is $6.50 per bag of soybeans, and that when a farmer purchases the soybeans, the price he pays includes $6.50 per 50-pound bag for the soybeans. I believe that this liquidated damages clause means [53] that the liquidated damages agreed to by the contract are 120 times $6.50 times the number of bags that the farmer purchased in that year, actually purchased from Monsanto, and there is

a bunch of reasons why I believe it means that and does not mean what Monsanto argues that it means.

The purpose of liquidated damages is so that the parties to a contract can know when they enter into a contract in a case where actual damages would be very difficult to ascertain or hard to prove, that the parties know up front what the damages will be if they breach. It's an agreement. I'm telling you today if I breach this contract I'll owe you x dollars. Maybe it is x times something, but it is always going to be something that's capable of ascertainment so that it is predictable. The parties know what's going to happen. The plaintiff is not required to prove up its actual damages because that might be very hard for the plaintiff to do.

Under Missouri law, which would govern this contract, the requirements are that the damages must be a reasonable forecast for the harm to be caused by the breach, and the harm must be of a kind difficult to accurately measure. And then additionally, of course, the damages are not supposed to be unreasonably disproportionate to the amount of harm anticipated when the contract was made.

If Monsanto were right about what it says this clause means, first of all, the plaintiff would be put to the extreme [54] burden of having to prove up exactly what it's not supposed to have to prove up, which is exactly how many bags, or how many bags of seeds were saved, and what was done with them, and where they were used, and if they were sold, who they were sold to, you know, and how much, etcetera, so that they could calculate actual damages, and that would defeat the whole purpose of liquidated damages. It would also defeat the purpose of

providing a reasonable forecast, and a forecast means at the time of contract, we can forecast what the damages will be.

In construction contracts, for example, people say, if I delay turning the building over to you, if I don't turn the building over to you on time, then I'll pay you a thousand dollars a day. The plaintiff might have to prove how many days it was until the building was turned over, but that's usually pretty easy. The parties know. That's how much it's going to be per day if the building is late.

In the Missouri cases involving house sales, if I don't go through with the purchase of this sale, then you get to keep my 5000-dollar down payment as liquidated damages. The parties know at the time of the contract what the damages will be if the party subject to the liquidated damages clause does not comply. It's a reasonable forecast.

Monsanto's argument is not that at all. What Monsanto is trying to do is take what would be the actual damages and [55] multiply them by the 120 multiplier, and that's not reasonable, and that's not what the contract says, or any kind of reasonable interpretation of contract language so I'm denying summary judgment on damages because there is no evidence in the record as to how many bags of soybeans Mr. McFarling purchased from Monsanto in 1998.

There was some testimony at the preliminary injunction hearing about how many he purchased in '97, but there is no evidence before me as to what he purchased in '98. I will say that I believe as I have interpreted the liquidated damages clause, that it would be enforceable under Missouri law as a reasonable forecast, because Monsanto doesn't know when somebody violates its

contract whether it is going to replant the seeds once or for the next ten years, and so I believe that the 120 multiplier would be reasonable if it's applied the way I think it should be applied.

If it were applied the way Monsanto thinks it should be applied, it would be an unenforceable penalty, because that would be basically saying compute your actual damages, and then multiply them by 120, and I don't believe that would be appropriate. That sounds like a penalty to me. So under Missouri law, that would not be appropriate if you did it Monsanto's way. So I'm denying summary judgment on damages.

I am also denying as moot the motion to dismiss that was filed some time ago, and I am denying as moot the motions [56] to exclude the testimony of Mr. Tollison and Mr. Parvin.

I'm also going to deny Mr. McFarling's motion to continue the trial setting. There are limited issues remaining for trial in this case, and there is no reason we can't proceed to trial in December as scheduled. The issues remaining are on plaintiff's complaint, Count One, damages on Count Two, on Count Three, damages on the '98 contract, and all the issues on the '97 contract, on Count Four and Count Five, all of the issues are remaining for trial.

The case remains set for jury trial on the two-week docket beginning on December the 2nd. I would remind you all that your pretrial submissions are due next Tuesday, November 12th, and I would expect those pretrial submissions to only include stuff about the claims that are going to trial. They will look a little different than they

would have before today, but you will provide me with jury instructions, etcetera, for the claims that are going to trial.

If it is Monsanto's intention to dismiss some of its claims, I would urge you to notify Mr. Waide of that immediately, if not sooner, so that he doesn't have to waste his time preparing pretrial submissions on claims that Monsanto does not intend to proceed on. I can't make you do that. I'm just telling you as a matter of courtesy that that's what you should do.

I know you have another case in this building the [57] following week, which is also on limited issues, and I can tell you that I do not have anything else on my trial docket right now for December 2nd, so I anticipate that you will be reached on Monday, December 2nd. I do know that I have to take Wednesday of that week off from trial, but, you know, I don't know how long it would take to try this case, but if it's three days, we'll do Monday, Tuesday and Thursday, and if it's two days, we'll finish Tuesday, and if it's four days, we'll do it Monday, Tuesday, Thursday, Friday, and you tell me how long you think the case is going to take. I expect we'll start on Monday. I'm not sure if we will guarantee it at this time, but that's my intention at this time, is that we will start on the 2nd, but a two-week trial docket.

I will put the order part of this in writing. As I say, I will not issue an opinion. I've told you my reasons, and so I'm not going to write an opinion, but I will write an order so it's perfectly clear what I'm ordering, all right? Anything further at this time? Okay, court is in recess.

(A recess was taken.)

REPORTER'S CERTIFICATE

I, TERI HANOLD HOPWOOD, RMR, Official Court Reporter for the United States District Court for the Eastern District of Missouri do hereby certify that the foregoing is a true and correct transcript of the proceedings had in this cause as same appears from my stenotype notes made personally during the progress of said proceedings.

/s/ Teri Hanold Hopwood, RMR
TERI HANOLD HOPWOOD, RMR

* * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

MONSANTO COMPANY, Plaintiff, vs. HOMAN MCFARLING, Defendant.	)	Civil Action No.: 4:00CV00084CDP

DEFENDANT'S NOTICE OF APPEAL

(Filed Dec. 12, 2002)

PLEASE TAKE NOTICE that Homan McFarling hereby appeals to the United States Court of Appeals for the Federal Circuit the Order granting Monsanto's Supplemental Motion for Summary Judgment and the Final Judgment Under Rule 54(b) entered on November 15, 2002.

Respectfully submitted,

WAIDE & ASSOCIATES, P.A.

By: /s/ Jim Waide
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Supreme Court, U.S.
FILED
SEP 3 - 2004
OFFICE OF THE CLERK

(2)

No. 04-31

IN THE

Supreme Court of the United States

HOMAN MCFARLING,

Petitioner,

v.

MONSANTO COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

SETH P. WAXMAN
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QUESTIONS PRESENTED

1. Whether the doctrine of patent misuse prohibits the owner of patents covering biotechnology that genetically modifies plants to resist certain herbicides from licensing farmers to use seed containing that patented technology only to grow a single commercial crop to be sold as a commodity but not to use the genetically-identical progeny of the initial planting for replanting or sale to others as seed.

2. If the above is not patent misuse, then whether such a licensing program could nevertheless violate section 2 of the Sherman Act as a "tying" arrangement, even though the patent owner does not require the farmer-licensee to purchase any additional seed in future years or any other product as a condition of purchasing the genetically modified seed containing the patented technology.

PARTIES TO THE PROCEEDING

The only parties to the proceeding are those identified in the caption.

RULE 29.6 STATEMENT

Monsanto has no parent corporation, and no publicly held corporation owns more than 10% of its stock.

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IN THE

Supreme Court of the United States

No.04-31

HOMAN MCFARLING,

Petitioner,

v.

MONSANTO COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

OPINIONS BELOW

The decision of the court of appeals (Pet. App. 1-31) is reported at 363 F.3d 1336. The decision of the district court (Pet. App. 35-49) is unreported. A prior decision of the court of appeals is reported at 302 F.3d 1291.

JURISDICTION

The judgment of the court of appeals was entered on April 9, 2004. Pet. App. 1. The petition for a writ of certiorari was filed on July 6, 2004. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

1. This is a patent-infringement and contract dispute arising out of respondent Monsanto's efforts to protect its

patented biotechnology in soybean plants and plant seeds that have been genetically modified to be resistant to certain herbicides. The active ingredient contained in Monsanto's Roundup® herbicide, glyphosate, is highly effective at destroying most forms of noxious weeds, but it can also cause severe damage to crop plants. After a considerable investment of resources, Monsanto developed recombinant DNA technology that, when inserted into certain crop seed (including soybeans), protects the resulting genetically modified crop plants from being harmed by applications of glyphosate. This biotechnology permits farmers to spray Roundup® or other glyphosate-based herbicide over an entire field to control weeds without fear of harm to their crops. *See* Pet. App. 2-3.

Monsanto brands and licenses its patented biotechnology as Roundup Ready® seed. To market this patented biotechnology, Monsanto licenses seed companies to manufacture the herbicide-resistant seeds by inserting the modified gene into soybean germplasm and then to sell the seeds to farmers subject to certain license restrictions. Monsanto requires farmers who purchase seeds containing the patented technology to obtain a license, typically by signing a Technology Agreement with Monsanto. This Technology Agreement provides that the seeds containing Monsanto's patented technology are to be used "for planting a commercial crop only in a single season" and expressly states that the farmer-licensee may not "save any crop produced from this seed for replanting, or supply saved seed to anyone for replanting." Pet. App. 4.[1]

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[1] Soybean seeds self-replicate at an exponential rate, leaving farmers at the end of the growing season with an abundance of seed that could be sold as a commodity, saved for replanting in the following year, or sold to someone else for use as seed. A single Roundup Ready® soybean seed produces a plant that yields 25 to 50 genetically-identical seeds. Thus, allowing soybeans containing the patented technology to be saved for replanting or sale as seed would mean that the patent owner's ability to protect or exploit that technology would effectively be lost as soon as the first

2. In conjunction with purchasing Roundup Ready® soybean seed, petitioner obtained a license in 1998 to plant that seed as a commercial crop in one growing season. Petitioner signed the 1998 Technology Agreement when he purchased the seed, thereby agreeing not to replant or transfer the genetically-identical progeny of that seed. Petitioner has conceded, however, that, contrary to the express terms of the Agreement, he saved 1,500 bushels of Roundup Ready® soybeans from his 1998 harvest and replanted them the following season. Pet. App. 5. He then repeated that unauthorized activity by saving and replanting soybeans containing Monsanto's patented technology again in the following growing season. *Id.*

3. Monsanto filed suit against petitioner in the United States District Court for the Eastern District of Missouri, as provided for in a forum-selection clause of the Technology Agreement. Monsanto alleged that petitioner had infringed its patents covering the technology contained in the Roundup Ready® seed and breached the terms of the Technology Agreement, and sought a preliminary injunction against further infringement. Petitioner moved to dismiss for lack of personal jurisdiction and raised various counterclaims and defenses, charging Monsanto with patent misuse and violation of the antitrust laws and the Plant Variety Protection Act (PVPA), 7 U.S.C. §§ 2321 *et seq.* Petitioner did not challenge the validity of Monsanto's patents. *See* Pet. App. 5-6.

After an evidentiary hearing, the district court ruled that the forum-selection clause is valid and that Monsanto had shown a likelihood of success on the merits of its patent-infringement and contract claims. The district court therefore entered a preliminary injunction. On appeal from that injunction, petitioner challenged both decisions before the court of appeals, which affirmed, 302 F.3d 1291 (Fed. Cir.

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generation of the product was introduced into the market without reasonable license restrictions.

2002) ("*McFarling I*"). On the merits of the preliminary injunction, the court of appeals held that petitioner had failed to establish a likelihood of success on his counterclaims and defenses that Monsanto's license restrictions violated the antitrust laws, the "first sale" doctrine of exhaustion, or the PVPA, or otherwise constituted patent misuse. *Id.* at 1297-99. This Court denied certiorari, 537 U.S. 1232 (2003).

4. The district court then addressed the merits of Monsanto's claims and petitioner's counterclaims and defenses. The court ruled that petitioner had breached the Technology Agreement by replanting soybean seeds containing Monsanto's patented technology that he had saved from his previous year's crop. After calculating damages on the breach of contract claim, the court granted summary judgment for Monsanto on that claim and against petitioner on his patent-misuse defense and antitrust counterclaims. The court accordingly found it unnecessary to resolve Monsanto's patent-infringement claims. The court entered final judgment for Monsanto pursuant to Fed. R. Civ. P. 54(b). Pet. App. 7; 32-33.

The court of appeals affirmed, rejecting in particular petitioner's contentions that the license restrictions in the Technology Agreement were invalid under either the patent-misuse doctrine or the Sherman Act. In his patent-misuse defense, petitioner argued that Monsanto had "impermissibly tied an unpatented product to a patented product." Pet. App. 8. Although the court of appeals recognized that tying can constitute patent misuse, *id.* at 9 (citing *Carbice Corp. of Am.* v. *American Patents Dev. Corp.*, 283 U.S. 27, 30-31 (1931) and *Senza-Gel Corp.* v. *Seiffhart*, 803 F.2d 661, 665 (Fed. Cir. 1986)), it also noted that petitioner was "not rais[ing] a typical tying allegation, and the mere recitation of the word 'tying' is not sufficient to state a patent misuse defense," *id.* at 9-10. Petitioner did not argue, for example, that Monsanto prevented him from purchasing soybean germplasm without Monsanto's patented Roundup Ready® technology, and the court noted that it had already found that a market for such unmodified soybean seed ex-

ists. *Id.* at 10 (citing *McFarling I*, 302 F.3d at 1298). Moreover, petitioner did not contend that he desired, or could make use of, a license for Monsanto's patented technology apart from or prior to its insertion into conventional germplasm. *Id.*

Rather, petitioner's patent-misuse argument was based on Monsanto's refusal to grant permission to replant the genetically identical progeny of the seeds containing Monsanto's technology that he had purchased pursuant to the Technology Agreement—in other words, Monsanto's decision not to license petitioner to use or sell a second generation of soybeans containing Monsanto's technology as seed. The court of appeals rejected this argument, refusing to hold that the "exercise of [Monsanto's] right to exclude from the patented invention by itself is a 'tying' arrangement that exceeds the scope of the patent grant." *Id.* Recognizing that this case presents "a unique set of facts" where the goods containing the patented technology are used to produce "nearly identical" copies that contain that same patented technology, the court of appeals held that the "licensing restrictions on the use of goods produced by the licensed product are not beyond the scope of the patent grant at issue." Pet. App. 11-12. Because Monsanto's patented technology is reproduced and thus contained in subsequent generations of Roundup Ready® soybean seed, the court concluded that "the restrictions in the Technology Agreement prohibiting the replanting of the second generation of ROUNDUP READY® soybeans do not extend Monsanto's rights under the patent statute." *Id.* at 12.

The court of appeals then turned to petitioner's tying antitrust counterclaim—which it described as a "repackage[d]" version of his tying patent-misuse defense. Pet. App. 12. Because the court had found petitioner's "allegations insufficient to present a genuine issue of material fact concerning whether Monsanto's licensing restrictions went beyond the boundaries of its patent grant," the court concluded that petitioner's "antitrust counterclaim also fails." *Id.* at 12-13.

Finally, with regard to petitioner's argument that " 'the district court improperly . . . decided that the patented technology (the patented "trait") and the seed are not two separate markets' without examining consumer demand for either," the court agreed that the question whether there are two distinct products for tying purposes requires examining consumer demand. Pet. App. 13. Nevertheless, because petitioner did not claim that he was unable to purchase natural soybean seed and the modified gene as separate products, but rather that he should be able to purchase a license that authorized him to use subsequent generations of the seed containing Monsanto's patented traits as he wished, the court of appeals held that the district court's conclusion about the nature of the market was irrelevant to its holding and declined to review it.

ARGUMENT

The court of appeals correctly held in this case that (a) a patent holder does not exceed the scope of the patent grant and engage in a tying arrangement simply by virtue of exercising its right to exclude from certain uses of the patented invention, and (b) petitioner's antitrust tying claim based on the same theory as his patent misuse claim fails for the same reasons. Neither aspect of the court of appeals' ruling conflicts with this Court's decisions on patent misuse and tying or the decision of any other court of appeals. Moreover, both rulings are manifestly correct. The premise of petitioner's tying argument—that Monsanto has tied the purchase of its patented technology to the requirement that new Roundup Ready® seed be purchased in the future—is simply wrong. Licensees are free to decide not to purchase Roundup Ready® seed in the future and to purchase competitors' seed; they are merely prevented from saving the crops containing Monsanto's patented technology for replanting or sale to others as seed. Accordingly, the issues raised by petitioner do not warrant this Court's review, and certiorari should therefore be denied.

1. Petitioner first incorrectly contends (Pet. 9-10) that Monsanto has engaged in an unreasonable restraint of trade

by prohibiting customers from replanting or selling any seed produced containing Monsanto's patented technology. In support of this argument, petitioner repeatedly mischaracterizes the scope of the license conveyed in the Technology Agreement as "not allow[ing] [farmers] to purchase the Monsanto technology without also agreeing to buy overpriced new seed"; mandating that "[a] farmer cannot purchase the technology unless he agrees to purchase new seed each year"; and "[r]equiring farmers to purchase a tied product (new soybeans) as a condition to purchasing a desired product (the patented technology)." *Id.* Not one of these descriptions of Monsanto's licensing practice is accurate.

Monsanto does not require farmers to purchase its Roundup Ready® seed in future growing seasons as a condition of purchasing it now. Instead, Monsanto merely requires each farmer-licensee to sell the resulting crop of soybeans produced from the purchased Roundup Ready® seed as a commodity rather than saving it to be replanted or sold to others as seed. As the court of appeals recognized, farmers are free at all times to purchase competitors' seed—including conventional seed—or to elect not to purchase any additional Roundup Ready® seed containing Monsanto's technology. Pet. App. 10 ("McFarling does not argue that he cannot purchase soybean germplasm without the genetic trait that brings the soybean within the ambit of Monsanto's patent. In fact, a market for such unmodified soybeans exists.").

Nor is there any evidence that Monsanto refuses to license the modified gene separately for insertion into a soybean germplasm as it does regularly with seed companies. Pet. App. 10. What Monsanto does require is that licensees use the seed containing the patented technology to grow a single commercial crop in a single season and not save any soybeans produced for use as seed for replanting or transfer to a third party. *Id.* at 4. This license restriction is well within the scope of Monsanto's patent right and constitutes a straightforward exercise of the right to exclude that is in-

herent in patent ownership. *See Dawson Chem. Co.* v. *Rohm & Hass Co.*, 448 U.S. 176, 215 (1980) (describing "long-settled view that the essence of a patent grant is the right to exclude others from profiting by the patented invention"); *see also* 35 U.S.C. § 271(d) (1999) ("No patent owner otherwise entitled to relief ... shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having ... (4) refused to license or use any rights to the patent.").

Petitioner maintains that Monsanto may not prohibit him from using the genetically identical progeny of the seed that he purchased, which contains Monsanto's patented biotechnology, provided that he pays Monsanto a license fee for a second use of that biotechnology. As the court of appeals recognized (Pet. App. 10), petitioner essentially is arguing that Monsanto must grant him a compulsory perpetual license for unlimited use of its patented technology for all future crops grown in subsequent seasons. Patent law, however, does not require Monsanto to license multiple, subsequent uses of its technology. To the contrary, patent law strongly disfavors compulsory licenses as fundamentally incompatible with the right to exclude that lies at the heart of the patent right. *See Dawson*, 448 U.S. at 215 (noting that "[c]ompulsory licensing is a rarity in our patent system"). Indeed, basic principles of patent law establish that a patent holder may license its patented technology as broadly or as narrowly as it wishes without misusing its patent. *See E. Bement & Sons* v. *National Harrow Co.*, 186 U.S. 70, 91 (1902) ("[T]he rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts.").

Petitioner's remaining arguments in support of a restraint of trade theory are equally unavailing and, in any event, provide no basis for this Court's review. The fact that seed-company licensees that insert Monsanto's patented biotechnology into their germplasm and sell it as Roundup

Ready® seed also receive a benefit from the sale (Pet. 9), without more, is insufficient to establish an unreasonable restraint of trade. *See Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 25 (1984) ("[T]here is nothing inherently anticompetitive about packaged sales."). The theoretical availability of what petitioner postulates as a "less restrictive alternative," in which Monsanto would allow farmers to save and replant the patented seed, and then seek to collect the Technology Fee in subsequent seasons (Pet. 10), does not demonstrate that Monsanto's refusal to do so is an unreasonable restraint of trade. Indeed, absent such a license restriction, it is difficult to believe that any seed company would agree to incorporate Monsanto's technology into their germplasm, given that the market for the transformed germplasm would last for only one year.

In addition, as the court of appeals recognized, this case "presents a unique set of facts in which licensing restrictions on the use of goods produced by the licensed product are not beyond the scope of the patent grant at issue." Pet. App. 11-12. The court determined that the goods produced by the licensed product were not beyond the scope of the patent grant in large part because, in the context of this appeal, it had to presume that Monsanto's patented technology in the "first generation" seeds would be reproduced and thus be present in the "second generation" seed as well. *Id.* at 12. Under these circumstances, any review of the issue by this Court would be limited to the unique facts and procedural posture of this case and could reach no other conclusion.

2. Although petitioner maintains that the court of appeal's decision conflicts with the decisions of other circuits (Pet. 12-13), the alleged conflict is wholly illusory. Petitioner cites *United States* v. *Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001), for the proposition that "owning patents on all products covered by a licensing agreement does not immunize the agreements from antitrust scrutiny" (Pet. 12), but the court of appeals in this case did not suggest that patent ownership provides immunity from the antitrust laws. Indeed, the Federal Circuit has repeatedly recognized that

"[i]ntellectual property rights do not confer a privilege to violate the antitrust laws." *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000); *Intergraph Corp.* v. *Intel Corp.*, 195 F.3d 1346, 1362 (Fed. Cir. 1999). In *Microsoft*, the D.C. Circuit simply rejected the extreme position that a copyright owner has "an absolute and unfettered right to use its intellectual property as it wishes." 253 F.3d at 63. The court held that this argument "borders upon the frivolous" and quoted the Federal Circuit in *Independent Service Organizations* for the absence of such a privilege. *Id.*[2]

Nothing in the court of appeals decision in this case is inconsistent with the D.C. Circuit's ruling or Federal Circuit precedent that intellectual property rights—whether in copyright or patent—do not provide immunity from the antitrust laws. Instead, the court below held that petitioner's antitrust counterclaim failed for the same reason that his patent-misuse defense failed—namely, that petitioner was not actually complaining about an inability to purchase either product separately, but rather about the license restriction against planting or selling second-generation seeds containing biotechnology that has been discovered, developed, and patented by Monsanto. The court recognized that "[t]ying can constitute patent misuse," for example, when "[a] patent licensor who conditions the license on a patent licensee's purchase of an unpatented material" thereby "impermissibly extending the scope of the subject matter encompassed by the patent grant." Pet. App. 9.

Although petitioner attempts to conjure a split among the circuits by describing the court of appeals' opinion as holding that, because "Monsanto has a patent both on the patented technology and on the seed, Monsanto's prohibiting seed-saving cannot constitute either patent abuse or an

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[2] The court of appeals in this case quoted *Independent Service Organizations* for the proposition that an antitrust claim "does nothing to limit the right of the patentee to refuse to sell or license in markets within the scope of the statutory patent grant." Pet. App. 13.

antitrust violation" (Pet. 8), the court of appeals held no such thing. Rather, the court held only that, under the circumstances of this case, petitioner's antitrust claim was simply a repackaged version of his misuse defense and rejected it for the same reason—namely, that Monsanto is not impermissibly extending its patent monopoly over an unpatented product through a tying arrangement because Monsanto's patented technology is found in the second generation seeds as well.

Petitioner also vainly attempts to manufacture a conflict with the Third Circuit's decision in *Mannington Mills, Inc.* v. *Congoleum Industries, Inc.*, 610 F.2d 1059 (3d Cir. 1979). In *Mannington Mills*, the district court had held that the plaintiff could not state a valid antitrust claim "based exclusively upon [the defendant's] status as a patentee." *Id.* at 1069. The Third Circuit "recognize[d] that promotion of the policies that underlie the federal patent laws may on occasion require that the application of normal antitrust principles to patent license restrictions be moderated or withheld entirely," but concluded, "[o]n the facts alleged[,] . . . that the antitrust exemption created by the district court extends more broadly than is necessary to that end." *Id.* at 1069-1070. Moreover, the court distinguished a horizontal agreement among licensees designed to reduce competition from the scenario "[w]here a patentee's license restrictions are imposed vertically upon the licensee, in pursuit of the patentee's own marketing strategy." *Id.* at 1073. Those circumstances, the Third Circuit found, indicate "the legitimate exploitation of the patent monopoly" and suggest that the restrictions imposed on the license "are among those significant to the patentee's initial decision whether to license the manufacture or sale of the patented invention." *Id.*

Monsanto's license restrictions clearly fall in this latter category. They are "imposed vertically" on farmers as part of Monsanto's marketing strategy that allows its valuable technology to be incorporated into a large variety of different germplasm for the benefit of farmers and the public. The license restricting a farmer's use of Monsanto's

Roundup Ready® seed for only one season to produce a single commercial crop is not part of a scheme to reduce competition, but rather represents the legitimate exploitation of Monsanto's patent rights on the biotechnology present in the second-generation seeds and the exercise of its right to exclude unauthorized use or sale of such technology.[3]

3. Petitioner is also far afield in contending that the court of appeals "radically extended the previous reach of the patent laws as this Court has defined them." Pet. 13. Petitioner observes that Roundup Ready® seed contains not only the genetically altered components protected by Monsanto's patented technology, but many other genes that were not modified by Monsanto and hence are "products of nature." *Id.* at 13-14 ("The seed contains not only a genetically-altered gene, but also contains thousands of other genes which are not made by Monsanto but by God"). But the court of appeals did not deviate from the principle that "the patent laws cannot be extended to include products of nature." *Id.* at 14 (citing *J.E.M. Ag Supply, Inc.* v. *Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124 (1996)).

Rather, the court of appeals correctly gave effect to the principle that, as long as the modified seed at issue contains the genetic technology patented by Monsanto, then it is properly subject to the patent laws, regardless of the source or origin of the other, unpatented components. The mere fact that the genetic material in the soybean seed, including the patented components, was identically reproduced did not

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[3] Petitioner's reliance on *In re Yarn Processing Patent Validity Litigation*, 541 F.2d 1127 (5th Cir. 1976), is equally misplaced. Pet. 13. *Yarn Processing* involved a horizontal agreement between the patentee and its licensee machine manufacturers under which the manufacturers received a certain portion of the royalty payments received by the patentee from use of the machines by the end user. The Fifth Circuit found that these agreements resulted in an identical, guaranteed rate of compensation to each manufacturer and held that this amounted to price fixing and patent abuse. Here, however, there was no evidence of such a horizontal agreement and in fact there is substantial price competition among seed companies licensed to use Monsanto's technology.

convert everything in that genetic material into a product of nature, such that there are no man-made components covered by a patent in it. To the contrary, this Court has held that reproducible man-made inventions included within living organisms, including genetically modified seed, are patentable. *See Diamond* v. *Chakrabarty*, 447 U.S. 303, 309 (1980) (holding that a live, human-made microorganism that is "a nonnaturally occurring manufacture or composition of matter" is patentable). The genetic technology patented by Monsanto is present in the Roundup Ready® seed at issue and is reproduced in future generations of the seed. That is all that is required for infringement when a licensee appropriates the technology present in the second generation of the plant to a use not authorized by the license, regardless of what other "natural" genes or components may be present in such seed.[4]

[4] In any event, because this case was decided by the court of appeals on appeal from a Rule 54(b) judgment entered solely with respect to the non-patent claims, any dispute regarding the scope of Monsanto's patent claims or the merits of Monsanto's infringement claim is not properly before this Court.

CONCLUSION

For the reasons discussed above, the petition for writ of certiorari should be denied.

Respectfully submitted,

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SEPTEMBER 2004

(5)

No. 04-31

In The
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HOMAN MCFARLING,

Petitioner,

versus

MONSANTO COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITIONER'S REPLY BRIEF IN RESPONSE TO BRIEF AMICUS CURIAE OF THE UNITED STATES

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PETITIONER'S REPLY BRIEF IN RESPONSE TO BRIEF AMICUS CURIAE OF THE UNITED STATES

This brief is submitted in response to the brief submitted by the United States on May 27, 2005. That brief contains many arguments with which McFarling disagrees, but this response will be limited to two points: the Solicitor General (1) erroneously claims that McFarling argues that the case is moot, and (2) erroneously bases his legal analysis on the '435 patent and the technology agreement signed by McFarling even though Monsanto has withdrawn its reliance on both of them.

1. In his supplemental brief filed on May 23, 2005, McFarling pointed out that Monsanto had withdrawn its claims based on the '435 patent and on the technology agreement signed by McFarling when he purchased Monsanto's Roundup Ready® seeds. That brief took the position that, because the court of appeals had relied exclusively on those two elements of Monsanto's claims in upholding the grant of summary judgment against McFarling, the basis for the Federal Circuit's holding no longer exists. Therefore, McFarling argued, the proper disposition was to remand the case to the Federal Circuit for further proceedings, in light of Monsanto's withdrawals of the sole basis for the Federal Circuit's ruling. Supp. Br. 1-8.

In its brief to this Court, the United States asserts that McFarling is seeking a ruling that the case is moot (U.S. Br. 8-9). The supplemental brief makes no such argument, nor could it. Monsanto's complaint relies not only on the now withdrawn '435 patent on Roundup Ready® seed, but also on the '605 patent, which covers only technology. The '605 patent, Monsanto continues to

argue, is a proper basis upon which it can outlaw seed-saving. McFarling disagrees that the '605 patent can support Monsanto's outlawing of seed-saving. McFarling has not suggested that the entire case is moot, as the Solicitor General's brief contends. Instead, McFarling asserts that the basis for the Federal Circuit's ruling no longer exists. Arguing that a court decision has no basis is not the same thing as arguing the case is moot. This case in not moot since the controversy still exists. Accordingly, there is no reason for the Court to concern itself with the various objections to mootness raised by the United States (Br. 9-10). The only issue is whether this Court may properly deny certiorari when the legal bases on which the decision below were made no longer exists. The answer to that question, we submit, is "no," and a remand is the appropriate disposition.

2. On page 8 of its brief, the United States expressly recognizes that Monsanto's '435 patent claim and its breach of contract claim have been withdrawn. Nonetheless, in defending the decision of the Federal Circuit, it continues to rely on those withdrawn claims in note 6 on page 12, note 7 on page 13, and the text on page 14 and note 8. The legal analysis of the United States is in error, but for present purposes, the Court need not resolve that dispute because that analysis is based on arguments that Monsanto has abandoned. The issue, now that the '435 patent has been withdrawn, is whether the '605 patent – which does not purport to cover seed – can justify Monsanto's agreement with seed companies to require farmers to purchase new seed each year as a condition to being allowed to purchase Roundup Ready® technology.

While arguing against an issue (mootness) never raised, the United States ignores the crucial reasons the Court should hear this case. These reasons are:

1.) The Federal Circuit has sanctioned a procedure whereby farmers are required to buy overpriced seed from seed companies, as a condition to purchasing the patented technology; (J.A.871) and

2.) The Federal Circuit has permitted Monsanto to outlaw an economically efficient farming method (seed saving) upon which farmers have relied for thousands of years.

CONCLUSION

The petition for a writ of certiorari should be granted, the decision below vacated, and the case remanded to the Federal Circuit for its consideration in light of the withdrawal of the '435 patent, which was the basis for the Federal Circuit's allowing Monsanto to outlaw farmers' traditional right to save their own seed for replanting.

Respectfully submitted,

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SUPPLEMENTAL BRIEF

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SUPPLEMENTAL BRIEF

Petitioner Homan McFarling filed his Petition for Writ of Certiorari on July 8, 2004. On October 12, 2004, the Court invited the Solicitor General to file a brief expressing the views of the United States on whether certiorari should be granted. Since the petition for certiorari was filed, the factual circumstances have changed: Monsanto has abandoned the legal claims that formed the basis of the Federal Circuit's opinion.

The change occurred during the damages phase of this case which is in the District Court for the Eastern District of Missouri. On April 26, 2005, the district court judge granted Monsanto's request to dismiss its claims for infringement of the '435 patent and for breach of contract, leaving only its claims for infringement of the '605 patent. *See* Appendix 1. The '435 patent is precisely the basis on which the Court of Appeals for the Federal Circuit rejected McFarling's antitrust and patent abuse claims. Given this fundamental change in the underlying circumstances of the case, it is appropriate to grant certiorari, vacate the opinion of the Court of Appeals and remand to that court for further proceedings. In the alternative, Monsanto's decision to withdraw from the case the very claims that supported the court's holding below make it all the more clear that Monsanto has sought to extend its intellectual property rights beyond their lawful scope with anti-competitive effect, and the Court should grant certiorari to review the ruling below.

Petitioner Homan McFarling used Monsanto's Roundup Ready® soybean seed to plant his 1998 soybean crop. Roundup Ready® seed, as the name suggests, are resistant to Monsanto's Roundup® herbicide, so that

Roundup® herbicide will kill weeds but not the soybean plants. The Roundup Ready® seed attain this resistance from a genetic modification on which Monsanto holds various United States patents. The '435 patent also purports to cover second-generation seed.

Farmers who purchase Roundup Ready® seed must execute a technology license entitled "Monsanto Technology Agreement" ("Monsanto Form Contract"). Pet. App. at 4.[1] Under the Monsanto Form Contract, the farmer must agree that he will not replant any second-generation seed that are produced from the purchased seed. *Id.* McFarling signed the Monsanto Form Contract in 1998. He saved seed from his 1998 crop, and replanted those seed in 1999. Monsanto learned of the replanting, and filed suit in January 2000, alleging, in relevant part, breach of the Monsanto Form Contract and infringement of two Monsanto patents. McFarling denied the allegations, and asserted defenses and counterclaims, including patent misuse and unreasonable restraint of trade. *Id.* at 6.

In 2002, Monsanto moved for summary judgment on breach of the Monsanto Form Contract and all of McFarling's defenses and counterclaims. *Monsanto Co. v. McFarling*, No. 4:00CV84 CDP, 2002 WL 32069634, at *1 (E.D. Mo. Nov. 5, 2002). The district court granted summary judgment on McFarling's patent-misuse defense because it viewed the Monsanto Form Contract as a "single use license" of the '435 patent, and argued that "[t]here is nothing unlawful about granting a single use license, and

[1] "Pet. App." references the Appendix to the original Petition for Writ of Certiorari.

a patent holder who has a lawful patent can't be liable for maintaining a monopoly of power based simply on refusing to license the patent to others. That's what a patent gives you." *Id.* at *4.

McFarling timely appealed to the Court of Appeals for the Federal Circuit, which affirmed the decision in relevant part. *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed. Cir. 2004) Pet. App. at 7-13. The Federal Circuit, however, articulated a different rationale than the district court. The Federal Circuit recognized that the Monsanto Form Contract was more than a run-of-the-mill "single use license" because it sought to "control[] what McFarling can do with second-generation seeds" and, therefore, tried to impose "restrictions placed on goods made by, yet not incorporating, the licensed [first-generation seed]." *Id.* at 11-12. Put another way, the court recognized that the Monsanto Form Contract appeared to expand Monsanto's patent grant. Despite identifying this fundamental issue, the Federal Circuit nonetheless held that second-generation seed were "nearly identical copies" of the licensed first-generation seed, and that Monsanto's '435 patent "would read on all generations of soybeans produced." *Id.* at 12. The Federal Circuit, therefore, relied on *both* the Monsanto Form Contract and Monsanto's rights to the '435 patent in finding that McFarling's use of second-generation seed would infringe. Based on the Federal Circuit's existing, controversial interpretation of the Supreme Court's patent exhaustion doctrine, the court found it within Monsanto's patent rights to limit what McFarling did with second-generation seed. *Id.* The Federal Circuit rejected McFarling's claim that Monsanto was unlawfully tying the sale of seed to the sale of the

patented genetic "trait" on the theory that the '435 patent gave it the authority to do just this. Pet. App. 12-13.

McFarling timely sought certiorari. The principal question on which he seeks review is whether "a patent holder [may] lawfully prohibit farmers from saving and replanting seed as a condition to the purchase of patented technology."

The Federal Circuit's decisions were based squarely on Monsanto's now-withdrawn claims. Monsanto originally alleged infringement of two patents, the '435 and the '605, as well as breach of the Technology Agreement. While the now-withdrawn '435 patent contained claims specifically covering not only the genetically-modified soybean plants but also the "seed of a glyphosate-tolerant plant," U.S. Pat. No. 5,633,435, claim 79, the '605 patent remaining in the case is limited to the use of a particular promoter region within a genetically modified plant cell. U.S. Pat. No. 5,352,605; *see* Pet. App. at 3.

The Federal Circuit based its decision solely on infringement of the '435 patent and the breach of the Technology Agreement, and did not reach the question of whether the '605 patent could justify Monsanto's conditioning the right to purchase the valuable patented technology on purchase of new seed. The Federal Circuit's reliance on the now-abandoned '435 patent is evident throughout its opinions in this case. For example, McFarling argued in opposition to the preliminary injunction that the contractual prohibition against his saving seed was invalid under the patent exhaustion doctrine because it sought to give Monsanto control over its seed after they had been sold. The Federal Circuit rejected that argument

because it concluded that "[t]he restrictions in the Technology Agreement are within the scope of the ['435] patent grant, for the patents cover the seeds as well as the plants." *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1298-99 (Fed. Cir. 2002). Thus, it concluded that the seed McFarling grew had never themselves been sold, but constituted the making of new and infringing copies of the patented invention. *Id.* at 1299. This conclusion was critically dependent on the presence of the '435 patent in the case because only that patent included claims covering the seed produced by the pollinated plant.

Similarly, the Federal Circuit's opinion upholding summary judgment rejected both McFarling's patent misuse defense and his affirmative antitrust counterclaim because it found that McFarling's saving of seed made new seed that infringed the '435 patent:

> Because the '435 patent would read on all generations of soybeans produced, we hold that the restrictions in the Technology Agreement prohibiting replanting of the second generation of ROUNDUP READY® soybeans do not extend Monsanto's rights under the patent statute.

Pet. App. at 11-12.

The Federal Circuit did not apply the remaining '605 patent to McFarling's conduct or conclude that that patent justified requiring a farmer to buy expensive new seed as a condition to purchasing the patented technology.

Similarly, Monsanto's Response to the Petition for Certiorari makes clear its reliance on the '435 patent and the breach of contract claims that it has now withdrawn. It begins the Argument section of its response by stating that

> The court of appeals correctly held in this case that (a) a patent holder does not exceed the scope of the patent grant and engage in a tying arrangement simply by virtue of exercising its right to exclude from certain uses of the patented invention . . .

Response to Petition at 6.

Monsanto goes on to argue that McFarling may be prohibited by license from saving seed, because "[t]his license restriction is well within the scope of Monsanto's patent right and constitutes a straightforward exercise of the right to exclude that is inherent in patent ownership." *Id.* at 7-8. Given the changed circumstances, the Federal Circuit's decision cannot stand. The Federal Circuit based its decision on its conclusion that because Monsanto held the '435 patent, which covered genetically-altered seed, Monsanto could lawfully require farmers to purchase seed as a condition to purchasing the patented technology. This holding is no longer defensible. Without the '435 patent, Monsanto's argument that it can prohibit farmers from saving and replanting the genetically-altered seed collapses. Only the '435 patent, not the '605 patent, claims seed.

Because Monsanto has now abandoned any claim that McFarling infringed the '435 patent or violated the Technology Agreement, the Federal Circuit's reasoning, in fact, expands Monsanto's patent grant well beyond what the patent statute provides. By allowing Monsanto to restrict what purchasers of its seed do with subsequent seed generations, the Federal Circuit extends Monsanto's patent monopoly to cover seed reproduction, a natural process. McFarling has not "made" new seed in violation of the patent; the seed he did buy grew into plants and produced new seed on their own as part of a natural biological process. Even Monsanto

admits that the patent monopoly specifically excludes products of nature. Cert. Opp. at 12; *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972) (holding that "[p]henomena of nature, . . . are not patentable . . . "). Whether or not the reproduced seed contain Monsanto's patented technology, that fact cannot help Monsanto because the asserted patents cannot lawfully cover seed reproduction. Monsanto has sought – and the Federal Circuit has allowed it – to use its licensing agreements to cover God-made seed that its patent cannot lawfully reach. This Court should give the Federal Circuit the opportunity to revisit its decision in light of the radically-changed nature of the case.

Reviewing this case is of national importance since Monsanto's "no replant" policy has outlawed farmers' century-old practice of saving their own seed for replanting. *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985) found an antitrust violation because "the monopolist elected to make an important change in a pattern of distribution that had originated in a competitive market and had persisted for several years." *Id.* at 603. Monsanto's ban on seed-saving – which has the effect of subsidizing seed companies[2] at farmers' expense – is a "decision by a monopolist to make an important change in the character of the market." *Id.* at 603.

[2] Monsanto sells its Roundup Ready® seed through licensing agreements with approximately two hundred seed companies. These seed companies charge inflated prices for the seed. Because of the Monsanto licensing agreements, the seed companies, which did not invent the patented technology, reap subsidies from farmers by requiring that they buy new seed as a condition to being allowed to purchase the patented technology.

CONCLUSION

This Court should grant certiorari in order to vacate the Federal Circuit's opinion and remand for further proceedings. Alternatively, this Court should grant certiorari in order to correct the Federal Circuit's misapplication of principles of patent and antitrust law which require farmers to pay soybean seed companies artificially-inflated prices for new seed in order to purchase the patented technology.

Respectfully submitted,

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

MONSANTO COMPANY Plaintiff, v. HOMAN McFARLING, Defendant.	)))))))))	Case No. 4:00CV84CDP

MONSANTO COMPANY'S STIPULATION

Monsanto Company hereby stipulates and withdraws Count I – Patent Infringement on Patent No. 5,633,435; Count III – Breach of Contract; Count IV – Conversion; and Count V – Unjust Enrichment contained in Monsanto Company's Amended Complaint.

[Handwritten order by United States District Judge –

So Ordered.

Counts I, III, IV and V are dismissed with prejudice
/s/ Catherine D. Perry 4/26/05]

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on April 25, 2005, the foregoing was hand delivered to the following:

Jim D. Waide, III

/s/ Joseph C. Orlet

Supreme Court, U.S.
FILED
JUN 3 - 2005
OFFICE OF THE CLERK

No. 04-31

IN THE

Supreme Court of the United States

HOMAN MCFARLING,

Petitioner,

v.

MONSANTO COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

SUPPLEMENTAL BRIEF FOR RESPONDENT

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IN THE

Supreme Court of the United States

No. 04-31

HOMAN MCFARLING,

Petitioner,

v.

MONSANTO COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

SUPPLEMENTAL BRIEF FOR RESPONDENT

Petitioner argues in his Supplemental Brief (filed May 23, 2005) that this Court should grant certiorari, vacate the decision of the Federal Circuit, and remand the case for further proceedings. According to petitioner, the Federal Circuit's opinion in this case has been undermined by respondent Monsanto's decision, in conjunction with the recent damages trial in the district court, to limit its damages proof to the '605 patent infringement claim and therefore to dismiss its infringement claim based on the '435 patent and its breach of contract claim based on the license agreement between the parties. This Court should reject that argument.

1. Petitioner does not argue that this case has become moot because of Monsanto's dismissal of its infringement claim under the '435 patent and its breach of contract claim, nor could he. Monsanto continues to pursue its remaining infringement claim based on the '605 patent against peti-

tioner in the lower courts. Petitioner, in turn, raised a defense of patent misuse against that infringement claim based on his current arguments that Monsanto has engaged in tying arrangements, and grounded his antitrust counterclaim against Monsanto based on the same arguments. Petitioner's petition for certiorari seeks revival of that defense and counterclaim, which were rejected by both lower courts. Absent resolution of those issues in the lower courts, Monsanto's '605 patent infringement claim could not have reached the damages phase of the case. Hence, as the Solicitor General points out (U.S. Br. 8-10), and as petitioner concedes in his reply to the Solicitor General's brief (at 1-2), there is very much a live dispute remaining between the parties.

Moreover, a remand for further proceedings would serve no purpose in this case, because there is no basis for believing that the Federal Circuit would resolve those issues differently now merely because Monsanto has dismissed its claims under the '435 patent and the license agreement. The Federal Circuit's decision was not tied to the merits of any one of Monsanto's affirmative infringement and contract claims against petitioner. Rather, as pertinent here, the Federal Circuit affirmed the district court's grant of summary judgment to Monsanto on petitioner's defenses of patent misuse and antitrust counterclaims (which, in effect, incorporate the substance of petitioner's patent misuse defenses, but also affirmatively seek monetary relief). *See* Pet. App. 2. Those defenses and counterclaims are not limited to meeting Monsanto's claims under the '435 patent and the license agreement. The Federal Circuit's ruling clearly applies with equal force to the '605 patent, which is still very much a live issue in this case. Under these circumstances, the Court should deny certiorari for the reasons stated in Monsanto's original brief in opposition and confirmed by the Solicitor General's recommendation that the Court deny certiorari.

2. After the district court's decision granting Monsanto a preliminary injunction was affirmed on appeal, *see*

Monsanto Co. v. *McFarling*, 302 F.3d 1291 (Fed. Cir. 2002) ("*McFarling I*"), *cert. denied*, 537 U.S. 1232 (2003), "Monsanto moved for summary judgment on the infringement claim under the '605 patent, the breach of the license agreement claim, and all of McFarling's affirmative defenses," including, *inter alia*, counterclaims alleging monopolization, restraint of trade, and patent misuse. Pet. App. 6. Petitioner's defenses and counterclaims were not directed at only one patent or claim. Instead, petitioner asserted patent misuse as a defense to all of Monsanto's claims for relief, including both patent infringement claims, and his antitrust counterclaims were freestanding claims directed at Monsanto's licensing practices in general.

The district court granted summary judgment to Monsanto on all of petitioner's defenses and counterclaims, as well as on Monsanto's claim for breach of the license agreement and (as to liability only) Monsanto's claim for infringement of the '605 patent. Pet. App. 6. The district court then certified as final under Federal Rule of Civil Procedure 54(b) both its decision granting Monsanto summary judgment on its breach of contract claim (App. 1a) and its decision granting Monsanto summary judgment on petitioner's counterclaims (U.S. Br. App. 1a). Petitioner subsequently filed notices of appeal from both final judgments. App. 2a-3a. Accordingly, the Federal Circuit did not have before it merely Monsanto's claim for breach of contract. Rather, the Federal Circuit also had before it the question of the legal sufficiency of petitioner's counterclaims, including the antitrust counterclaims incorporating the elements of the patent misuse defenses, and it affirmed the district court's conclusion that those counterclaims and defenses were lacking in merit. *See* Pet. App. 2.

After the case returned to the district court for further proceedings on damages, the parties stipulated to the dismissal of Monsanto's infringement claim based on the '435 patent and the breach of contract claim. Pet. Supp. App. 1. It was unnecessary for Monsanto to pursue the '435 patent infringement claim, because the district court had already

granted summary judgment to Monsanto as to liability on its claim for infringement of the '605 patent, and the Federal Circuit had also upheld summary judgment for Monsanto on petitioner's patent misuse defense. Nothing remained to be decided on Monsanto's claim of infringement of the '605 patent, therefore, except the measure of damages. Monsanto also dismissed its contract claim because the district court had made clear that Monsanto would have to make an election of remedies as between patent and contract damages. Rather than proceed to the damages phase of the case pursuing both theories, Monsanto determined that it would be more efficient to elect patent damages under the '605 patent from the beginning.[1]

3. Contrary to petitioner's assertion, Monsanto's stipulation of dismissal neither undermines the holding or reasoning in the Federal Circuit's decision, nor provides any other ground for a grant of certiorari in this case. The Federal Circuit's decision was not dependent on a claim of infringement based on the '435 patent being in the case. Indeed, the merits of Monsanto's claim of infringement of the '435 patent were not before the Federal Circuit, and the district court had entered no ruling on the merits of Monsanto's affirmative claim of infringement of the '435 patent when the Federal Circuit issued its ruling (nor has either court below ever entered such a ruling). The only infringement claim that the district court had decided was the claim under the '605 patent, on which it granted summary judgment as to liability to Monsanto. *See* U.S. Br. 12.

The Federal Circuit ruled that summary judgment was proper on petitioner's antitrust counterclaims, including his patent misuse defenses, because, as it held, Monsanto's license restrictions on use of the second-generation seeds con-

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[1] The Federal Circuit had invalidated the liquidated damages clause in the license agreement in *McFarling II*. Pet. App. 20. Consequently, Monsanto determined that patent damages would both result in a higher measure of damages and would be easier to prove than actual contract damages.

taining Monsanto's patented chimeric gene technology are within the scope of Monsanto's patent rights. Pet. App. 11a-12a. That determination was not dependent on whether an infringement claim based on the '435 patent was in the case or not. Petitioner's patent misuse defenses and antitrust counterclaims were not limited to the '435 patent; rather, petitioner's tying argument was raised in defense against both the '435 infringement claim and the '605 infringement claim.

The Federal Circuit clearly considered and disposed of petitioner's tying argument for all purposes in this case. Indeed, it could not have affirmed summary judgment for Monsanto on petitioner's patent misuse defenses and antitrust counterclaims unless it had determined that there was no patent misuse defense to each of the patents asserted. Petitioner could have raised a defense of patent misuse as long as an infringement claim based on either of Monsanto's asserted patents remained in the case. By ruling that petitioner's tying argument lacked merit as a matter of law, the Federal Circuit necessarily ruled that petitioner had no defense of patent misuse to a claim under *either* the '435 patent *or* the '605 patent. It was precisely because the Federal Circuit had so ruled that the district court was able to proceed to a determination of damages for petitioner's infringement of the '605 patent without revisiting any defenses or counterclaims that petitioner might have previously advanced.

Given that the Federal Circuit plainly disposed of petitioner's tying-based defenses and counterclaims in their entirety, no purpose would be served by a remand to the court of appeals. Contrary to petitioner's argument, nothing in the Federal Circuit's decision on petitioner's tying argument suggests that it is limited to the '435 patent. As the Solicitor General has recognized, at bottom, petitioner's tying argument "reduces to the notion that he is entitled to purchase respondent's patented invention without also honoring limits imposed on the use of the product in which that invention finds its useful, tangible expression." U.S. Br. 16. That argument is contrary to the fundamental conception of the

patent right as a right to exclude. *See* 35 U.S.C. § 154. Petitioner's argument lacks merit whether the relevant patent is the '435 patent, now dismissed from the case, or the '605 patent, on which Monsanto's patent infringement damages claim in this case is now based. In either case, petitioner effectively wants to require Monsanto to afford him access to the invention without honoring limits that Monsanto places on the use and sale of the product "in which that invention finds its useful, tangible expression." Regardless of which Monsanto patent remains at issue, petitioner's theory is inconsistent with basic precepts of patent law.

CONCLUSION

For the reasons discussed above, the petition for writ of certiorari should be denied.

Respectfully submitted,

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JUNE 2005

APPENDIX

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

MONSANTO COMPANY,
Plaintiff,

v.

HOMAN MCFARLING,
Defendant.

Case No. 4:00CV84 CDP
[STAMP: FILED Nov. 15, 2002]

FINAL JUDGMENT UNDER RULE 54(B)

In accord with the Order entered this same date,

IT IS HEREBY ORDERED, ADJUDGED and DECREED that final judgment pursuant to Rule 54(b), Fed. R. Civ. P., is entered as follows: Plaintiff Monsanto Company shall have judgment against defendant Homan McFarling in the amount of $780,000.00 as final judgment on plaintiff's claim for breach of the 1998 contract, as contained in Count III of plaintiff's complaint.

/s/
Catherine D. Perry
UNITED STATES DISTRICT JUDGE

Dated this 15th day of November, 2002.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

MONSANTO COMPANY,
Plaintiff,

v.

HOMAN MCFARLING,
Defendant.

Civil Action No.: 4:00CV00084CDP
[STAMP: FILED Dec. 12, 2002]

DEFENDANT'S NOTICE OF APPEAL

PLEASE TAKE NOTICE that Homan McFarling hereby appeals to the United States Court of Appeals for the Federal Circuit the Order granting Monsanto's Supplemental Motion for Summary Judgment and the Final Judgment Under Rule 54(b) entered on November 15, 2002.

Respectfully submitted,

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

MONSANTO COMPANY,
Plaintiff,

v.

HOMAN MCFARLING,
Defendant.

Civil Action No.: 4:00CV00084CDP
[STAMP: FILED Jan. 21, 2003]

DEFENDANT'S SUPPLEMENTAL NOTICE OF APPEAL OF COURT'S DISMISSAL OF DEFENDANT'S COUNTERCLAIM

Notice is hereby given that the Defendant / Counterclaimant, Homan McFarling, hereby appeals to the United States Court of Appeals for the Federal Circuit from the Order dated November 5, 2002 dismissing his counterclaim, which Order became final on January 14, 2003, when this Court entered its final judgment pursuant to Federal Rules of Civil Procedure 54(b). McFarling has previously filed an appeal on December 12, 2002 of this Court's granting summary judgment on Plaintiff's breach of contract claim. This supplemental notice is filed in order to appeal the dismissal of McFarling's counterclaim.

Witness my signature, this 17[th] day of January, 2003.

Respectfully submitted,

WAIDE & ASSOCIATES, P.A.

BY: /s/
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MS BAR NO.: 6857